

**Exploring the Impacts of Improved Financial Inclusion on the
Lives of Disadvantaged People**

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Abstract

This thesis examines the consequences of gaining access to financial products and services and of becoming more capable of using these (i.e. financial inclusion). In particular, the study aims to investigate the key processes which promote financial inclusion and the wider consequences of becoming financially included for the individual concerned. This work is based on qualitative interviews with 41 users of third-sector organisation which play a significant role in the government's financial inclusion strategy. All agencies were involved in the promotion of financial inclusion, either through the provision of financial services, advice, or education. Respondents were drawn from seven out of 19 agencies which were initially interviewed in order to explore the field. The research also aimed to capture the longer term benefits of using financial inclusion initiatives and becoming financially included. This was achieved through the accomplishment of follow-up interviews with a sub-sample of 24 interviewees approximately one year after the first interview.

The discussions with service users explored the experience of disadvantaged individuals in terms of financial exclusion prior to coming into contact with one of the participating agencies and how their life circumstances had changed following contact in an in-depth manner. The first four chapters of the thesis provide the theoretical, empirical and political background for an understanding of the concept of exclusion from financial services, its consequences and what can be done to tackle the problem. Chapter 5 sets out in detail how the research was conducted and the data analysed. The following two chapters, then, look at the impact of financial inclusion policies on the lives of disadvantaged people through the discussions with service users. The concluding section of the study reviews the main findings in light of the research questions. It suggests the significance of financial inclusion in social inclusion processes, but also the limitations of the extent to which financial inclusion can radically change the life circumstances of individuals. This highlights the need for policy makers to tackle both direct barriers of financial exclusion as well as its underlying causes such as low income.

Hier gilt es, Schütze, deine Kunst zu zeigen:

Das Ziel ist würdig, und der Preis ist groß.

Friedrich Schiller, *Wilhelm Tell*

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Glossary

Annual Percentage Rate	APR
Association for Payment Clearing Services	APACS
Automated Cash Transfer	ACT
Automated Teller Machine	ATM
British Bankers' Association	BBA
Banking Code Standard Board	BCSB
Centre for Analysis of Social Exclusion	CASE
Citizens Advice Bureaux	CABx
Child Tax Credit	CTC
Child Trust Fund	CTF
Closing the Opportunity Gap approach	CtOG approach
Community Development Finance Institutions	CDFIs
Community Reinvestment Act	CRA
Department for Work and Pensions	DWP
Department of Trade and Industry	DTI
European Union	EU
Family Resources Survey	FRS
Financial Services Authority	FSA
Households Below Average Income survey	HBAI survey
Her Majesty's Treasury	HM Treasury
Institute for Public Policy Research	IPPR
Income Support	IS
Individual Savings Account	ISA
Insurance-With-Rent	IWR
Joseph Rowntree Foundation	JRF
Legal Services Research Centre	LSRC
Monitoring Poverty and Social Exclusion	MPSE
National Consumer Council	NCC
National Policy Institute	NPI
Office of Fair Trading	OFT
Office of National Statistics	ONS
Organisation for Economic Co-operation and Development	OECD
Personal Identification Number	PIN
Policy Action Team	PAT
Post Office Card Account	POCA
Poverty and Social Exclusion survey	PSE survey
Scottish Household Survey	SHS
Scottish Index of Multiple Deprivation	SIMD
Social Exclusion Unit	SEU
United Nations	UN

Chapter 1 - Introduction

1.1 Understanding Financial Exclusion

Financial products play an important part in today's society. Being able to access and use a wide range of financial products and services is now necessary 'to lead a normal social life' (Gloukoviezoff, 2007: 224). This 'financialisation' (Gloukoviezoff, 2007) of British society entails significant consequences for those who find it difficult to access and/or use these products. For example, private service provision can be more expensive for those who pay utility bills in cash and a bank account is now generally required for receiving wages (Kempson, 1994; Kempson and Whyley, 1998). The requirement for financial products also needs to be understood against the decline of social welfare provision, which makes it increasingly necessary for individuals to make their own provision against risk (see for example, Anderloni et al., 2007). The concept of financial exclusion, then, refers to this inability of individuals to access and/or effectively use financial products that help them to participate in the range of activities that constitute social life.

Financial exclusion is a relatively new concept which was first used in 1994 to describe the process of withdrawal of financial institutions predominantly from deprived areas (Leyshon, 1994). While this body of literature refers to the spatial dimension of the financial exclusion process, other publications have concentrated on different aspects of the phenomenon including individual factors and preferences (Rowlingson, 1994). The different processes that lead to either direct exclusion from financial services (e.g. refusal of credit) or self-exclusion are debated in Chapter 3. The concept is part of the wider phenomenon which is themed 'service exclusion'. This describes exclusion from a wide range of services including services in the home (e.g. utility services), and outside the home, public and private services (e.g. transport, shopping facilities and financial services) (Gordon et al., 2000). Service exclusion then forms one dimension of the wider phenomenon of social exclusion, which in the widest sense can be understood in terms of non-participation in one or more of the key social activities of contemporary society such as participation in the labour market, and social integration within a network of family and friends or within a community (Gordon et al., 2000). It is from the concept of social exclusion that financial exclusion has emerged, and many of the key aspects of social exclusion do apply to both concepts, as is discussed in Chapter 2. Like social exclusion, exclusion from the financial system is regarded as a

multidimensional concept, with different degrees of exclusion being identified across a wide range of financial products and services and levels of utilisation (Speak and Graham, 2000). Rather than being completely shut out from the financial system, financial exclusion is a dynamic process, with people moving in and out of exclusion over time; though the experience is more persistent for some (Kempson and Whyley, 1999b). Financial exclusion is also a relative concept and needs to be defined in relation to the society in which people live. As some financial services are more customary in some societies than others this is an important aspect of the phenomenon. Financial exclusion also needs to be understood in relation to people's individual needs, which can vary from individual to individual and are subject to taste. Therefore, one important component of the understanding of financial exclusion is voluntariness. It is only enforced exclusion that is of concern here. However, careful evaluation needs to be made between unconstrained choices and those that are influenced by institutional and individual barriers, which can be apparent, but also more subtle such as individuals' decision not to use mainstream banking services out of mistrust of mainstream financial institutions.

Financial exclusion is a phenomenon that often affects a significant minority of predominantly vulnerable and otherwise disadvantaged people, such as single parents, social tenants, the long-term unemployed, members of some minority ethnic communities and those living on persistent low incomes (Kempson and Whyley, 1999b). According to the analysis of Kempson and Whyley (1999b), seven per cent of households in Britain (around 1.5 million) were without any mainstream financial products in the mid-1990s. In addition, 19% were only marginally included, having only one or two financial products. In terms of banking, nearly two million adults were still without a bank account in 2006 (HM Treasury, 2007b). Some studies also give evidence of regional variations in financial exclusion, with, for example, higher levels of banking exclusion in Northern Ireland and Scotland (Kempson, 1994) and areas of deprivation (Leyshon and Thrift, 1997). While these studies show that disadvantaged individuals and households and deprived areas are more likely to be affected by exclusion from the financial system, it is also associated with both economic and social costs for those affected. Financial exclusion can thus both contribute and be the outcome of processes of social exclusion.

1.2 Policy Responses to Financial Exclusion

Having been discussed as an issue in academia and among stakeholders since the mid-1990s, promoting financial inclusion became part of New Labour's social exclusion agenda after their election in 1997. Since then a wide range of initiatives have been developed and implemented. Early initiatives had largely focussed on the delivery of specifically designed financial products to those who live in deprived urban neighbourhoods or rural communities. One key priority from the beginning and throughout the government's financial inclusion initiative has been the promotion of basic bank accounts and the development of another basic banking service - the Post Office Card Account (POCA) - in order to facilitate the receipt of social security benefits and the state pension through the post office network, as discussed in Chapter 4. Other areas of priority include promoting access to affordable credit, particularly via credit unions¹, ensuring sufficient access to free personal money advice services and financial education. Another area of interest, which had been neglected until recently, is promoting access to affordable home contents insurance.

The financial inclusion initiative of the government is led by the Treasury, with the Department of Trade and Industry (DTI) playing a significant role in the area of credit (including issues of over-indebtedness and illegal lending). Overall, the government is now more ready to consider alternative ways to promoting financial inclusion which do not concentrate on product design and delivery (alone) but which incorporate initiatives that target consumers' comprehension of the financial system, their skills and confidence to make use of available financial products and services. This is important as both access to a wide range of products and services and people's ability to use these products effectively needs to be ensured in order to promote meaningful financial inclusion. Individuals' ability to actively engage in the financial *mainstream*, in this context, is pivotal. It ensures that individuals are not stigmatised or excluded from mainstream society by using non-mainstream financial products with very limited functionality such as POCA's or which are more expensive such as home credit.

¹ These are community finance organisations which aim to encourage savings and assets-building among low-income households and enabling individuals to borrow at an affordable rate of interest.

Similarly to the Blair administration, financial exclusion became a key priority of the newly formed devolved government in Scotland. There, the first reference to financial exclusion is made in the, then, Scottish Executive's² social inclusion strategy report *Opening the Door to a Better Scotland* (Scottish Office, 1999). However, it was not until the Executive's community regeneration statement in 2002 that financial exclusion is explicitly mentioned as a policy strategy. Tackling financial exclusion, together with over-indebtedness, was firmly embedded in Scotland's *Closing the Opportunity Gap* (CtOG) approach which was introduced in 2004 but abandoned after a change in political leadership in May 2007. The financial inclusion policies of both the UK government and its devolved administration in Scotland are characterised by strong convergence. While those initiatives that fall under the jurisdiction of Westminster³, especially the areas of banking, savings and credit, are supported by the Scottish government, others where it has a greater sphere of influence are conducted in a similar way. This is evident, for example, in the Scottish Executive's targeted money advice and financial education projects.

Since financial exclusion entered the political agenda, initiatives to improve financial inclusion have been strongly associated with promoting social inclusion more generally. For example, the Treasury refers to the wider social impacts of financial exclusion such as its negative impact on individuals' employment prospects, the costs associated with financial exclusion and its detrimental effect on (community) regeneration initiatives (HM Treasury, 2004, 2007a). Similarly, the Scottish Executive's *Financial Inclusion Action Plan* (2005) makes several references to broader issues of social exclusion, including over-indebtedness, unemployment and poverty (Scottish Executive, 2005a). These policy initiatives, so far, have only been moderately successful in promoting meaningful inclusion in some areas, as Chapter 4 demonstrates. Moreover, there is a dearth of studies that evaluate financial inclusion policies in terms of their wider impacts on people's lives, including their impact on processes of social inclusion. Some of the studies that evaluate more recent initiatives, particularly money advice and

² This became the Scottish government in September 2007.

³ A system of political devolution is in place in Scotland. While some matters can be decided independently in Scotland, others are under the jurisdiction of Westminster.

financial education projects, show a greater interest in the links between financial and social inclusion, but nevertheless provide only very limited evidence.

1.3 Research Focus and Key Research Questions

Similarly to the assumptions made in policy texts, the potential of financial services to influence processes of social inclusion and, therefore, their contribution to individuals' lives beyond their immediate function (e.g. a means of receiving income), is also suggested in the literature (Rogaly et al., 1999). However, despite claims of a positive relationship, research into the impact of improved financial inclusion on social inclusion processes is scarce. Rather than trying to understand the links between these two concepts and the processes that lead to improved financial and social inclusion, financial inclusion initiatives are largely evaluated in terms of quantitative indicators, such as increase in credit union membership, number of bank accounts opened or money advisers recruited. Furthermore, initiatives are viewed in terms of cost-effectiveness and value for money. While these aspects of financial inclusion initiatives are important in a policy context, they do not offer any information about individuals' experience of using financial inclusion services and what impact improved financial inclusion (if improved) has on their quality of life and eventually on their experience of social exclusion. This is the gap this research aims to fill and the main objective of this study. The experience of individuals, their perceptions and attitudes are the focal points of this research. However, structural constraints and the social position of individuals - though not explored in detail - are recognised and found helpful in framing their experience. This is in agreement with Giddens (1991) who suggests that lifestyle choices are fundamentally related to resources.

Research has pointed to the only moderate impact of some financial inclusion initiatives in actually delivering financial inclusion. Evidence is especially abundant in the area of banking, in which research shows that people do not, or only marginally, use banking services when made available to them (see for example, BMRB Social Research, 2006). Although studies, for example, point to the importance of third-sector agencies in overcoming some of the barriers to inclusion, such as money advice and financial education agencies (see for example, Gillespie et al., 2007), less is known about the impact of credit unions and the key financial inclusion processes. In addition, although the role of individual agency is acknowledged, to some extent, in financial inclusion

research (see for example, Ford and Rowlingson, 1996), its part in relation to structural factors in explaining financial inclusion is not discussed. The second research question thus refers to the processes of financial inclusion, which describe individuals' improved ability to access and use appropriate mainstream financial services.

There is a lack of longer term evidence relating to the impact of financial inclusion initiatives. Hence another aim of this research is to capture the essence of these processes also in the longer term.

Research questions: Overall, the following research questions are proposed:

- What are the key processes that lead to financial inclusion?
- What are the wider (longer term) impacts of improved financial inclusion on the lives of disadvantaged people, their quality of life and life chances?
- Specifically, how does improved financial inclusion link to the broader dynamic processes of social inclusion?

These questions are answered by adopting a multi-stage approach. The first stage involves talking to 'knowledgeable' individuals of agencies/projects that deliver financial inclusion services. This stage aims to get a sense of the types of agencies that deliver financial inclusion, their experiences with promoting financial inclusion, and the (perceived) wider impact on service users. The second and third stages are central to this research since they aim to capture the views of the people who are using financial inclusion services and the longer term impacts of improved financial inclusion on their life chances and quality of life. Their views were captured in 41 discussions with service users and follow-up interviews with 24 individuals of the original sample.

Given the novelty of the research, qualitative interviews are employed as the central research method of the thesis. These allow interviewees to freely express any changes that have been apparent or perceived since using financial inclusion agencies, and to understand the complex links between financial and social inclusion over time. The qualitative approach also seeks to complement more outcome-oriented research and quantitative analyses of financial inclusion initiatives.

Overall, the study suggests that improving financial inclusion, particularly in terms of access only, did not necessarily make an impact on individuals' lives. In fact, many participants continued with managing finances largely in cash despite having a bank account or their increased knowledge about banking facilities. While the impact of banking inclusion was relatively moderate, other aspects of financial inclusion were more meaningful for respondents' lives and their experience of social and economic disadvantage more broadly. Overall, the intervention of the agencies was vital in encouraging change, but change was also influenced by interviewees' attitudes, preferences and personal circumstances. This finding has important implications for social theories about the role of structure and agency in explaining social phenomena. Furthermore, the research suggests the potential of financial services to promote autonomy, which has significance for the concepts of empowerment and control. The study also has implications for future policies since the research helps to understand processes of financial inclusion and the role improved financial inclusion plays in current social inclusion policies.

1.4 Outline of the Thesis

The thesis consists of eight chapters. Chapter 2 provides a theoretical overview of the concept of financial exclusion. It relates financial exclusion to the broader phenomena of poverty and social exclusion and explains the emergence of financial exclusion from these concepts. Chapter 3 discusses the extent of financial exclusion in the UK and gives an overview of its causes and consequences. The next chapter is a policy review, which examines current financial inclusion policies and their impacts on beneficiaries. The methods used in this research, how the study was designed and conducted are discussed in Chapter 5. Chapter 6 and 7 then present the analysis of the empirical findings. These are divided into people's experience of financial exclusion before coming into contact with financial inclusion agencies and their experience following contact in order to determine any changes that were apparent or perceived after using the agencies. Both chapters explore the links between financial and social ex- and inclusion and include evidence of the follow-up interviews. The last chapter - Chapter 8 - presents the conclusions of the study.

Chapter 2 - The Theoretical Conceptualising of Poverty, Social and Financial Exclusion

This chapter provides the theoretical basis for the concept of financial exclusion. It will discuss its emergence from debates about poverty and social exclusion more broadly. The concept of poverty forms the origin of this discussion and is explored in the first part of the chapter. From a narrow understanding of poverty as a lack of material resources sufficient to guarantee one's subsistence the much wider concept of social exclusion has developed. In the broadest sense this refers to exclusion as non-participation in society. The multi-faceted character of the concept and its emphasis on processes allows a greater focus on other factors which impede individuals' societal participation than was previously the case, including the role of non-engagement with the financial system. Making the links between financial and social exclusion then constitutes the last part of this chapter.

2.1 The Concept of Poverty

Poverty is a contested concept: there is no single correct, scientific agreed definition (Alcock, 2006). In the theoretical tradition, poverty is understood in terms of 'distributional issues: the lack of resources at the disposal of an individual or household to ensure a suitable standard of subsistence or living' (Barnes, 2005: 9). Already in 1901, Seebohm Rowntree, in his study of town life in York, defined an *absolute* measure of poverty, based on a person's minimum living standard, including food, shelter, clothing and fuel (Rowntree, 2000). According to this measurement, individuals or households are understood to be in poverty if their 'total earnings are insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency' (Rowntree, 2000: 86). This and other definitions of absolute poverty have in common that they attempt to define minimum standards of living, which everyone ought to have, regardless of the country he or she lives in. They thus draw attention to the inadequacy of living standards of those most in need (Lister, 2004; Spicker, 2007). As Sen (1983) argues:

there is (...) an irreducible absolutist core in the idea of poverty. If there is starvation and hunger then, no matter what the relative picture looks like – there clearly is poverty (cited in Gordon, 2006: 34).

This is also expressed in the definition of ‘absolute’ poverty of the Copenhagen World Summit on Social Development in 1995. Here, poverty is understood as:

a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services (UN, 1995: 41).

Although largely unchanged to Rowntree’s concept of poverty developed more than 90 years earlier, this understanding of poverty refers to a lack minimum standards of subsistence. In contrast to Rowntree, however, the United Nations’ definition of poverty also makes reference to a concept that will be discussed later; namely access to services.

Although the maintenance of physical efficiency is of relevance for much of the population in developing countries, and it is important to draw attention to the level of subsistence of those most in need, it is less applicable as a concept to the population of developed societies, who generally enjoy acceptable levels of nutrition, access to clean drinking water, clothing, health and shelter (Barnes, 2005). Therefore, absolute understandings of poverty do not fully capture the life experiences of those living in developed countries, who generally enjoy greater standards of living than residents of developing nations but may experience disadvantage in terms of social or cultural needs (Barnes, 2005; Oppenheim and Harker, 1996) or are affected by new forms of poverty (e.g. labour market inequalities) (Lister, 2004). Furthermore, there are certain norms in each society under which people are expected to live (Spicker, 2007). Food, for instance, does not only represent a physiological need, but has also a social connotation (Dowler et al., 2001 cited in Lister, 2004: 25). Moreover, the needs of individuals vary according to location and circumstances. For example, what one regards as ‘shelter’ or ‘adequate diet’ greatly depends on the resources available, the climate or the kind of customs in society. Townsend (1993) notes, for instance, that ‘nutritional requirements [are] dependent upon the work roles exacted of people at different points in history and different cultures’ (cited in Lister, 2004: 30). These arguments challenge absolute definitions of poverty. They suggest that even apparent absolute elements of poverty, such as the type of food and shelter needed to maintain physical efficiency, are, in fact, subject to social norms and customs and, as such, can be interpreted in different ways in different places and by different people. Poverty is thus a relative concept, which needs to be understood in the context of a given society rather than in fixed terms.

The concept of relative deprivation: Peter Townsend's work is seminal in coining and developing the concept of relative poverty or deprivation. In contrast to narrower concepts of income and absolute definitions of poverty discussed above, Townsend suggests a multidimensional, relativist view of poverty which takes into consideration issues of lifestyle, social relationships and other resources which ensure people's participation in society. Hence it is concerned with material as well as social or cultural resources. In his book *Poverty in the United Kingdom* (1979) Townsend proposes the following definition of poverty as 'relative deprivation':

Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities (Townsend, 1979: 31).

This is, in fact, not a new approach. Although not explored to the same extent as Townsend has, this line of thought has been put forward by other researchers before and, to some extent, was part of the analysis of absolute poverty.⁴ As early as 1776, Adam Smith commented:

By necessities I understand, not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without (cited in Townsend, 1979: 32-33).

Similarly in a pamphlet, first published 1891, Karl Marx wrote that: "Our desires and pleasures spring from society; we measure them, therefore, by society (...) they are of relative nature" (cited in Alcock, 2006: 66).

⁴ Rowntree, for example, includes tea as one of the minimum necessities for the maintenance of physical efficiency. This reflects social customs rather than being a criteria of physical needs.

Despite the prominence of relative understandings of poverty, absolute definitions of poverty are still current, as the definition of the UN above shows. Moreover, some approaches, such as Sen's concept of capability poverty, combine absolute and relative definitions of poverty. According to his notion, individuals' 'actual being and doing' or 'functionings' depend on 'universal absolutes', for instance not to be ashamed in public, while the resources and commodities ('capabilities') needed to achieve this goal depend on the cultural and historical context of society (cited in Alcock, 2006) and are thus socially defined. This approach is important as it understands resources beyond income and recognises the significance of choices and opportunities for people to be able to lead the kind of life they want.

Townsend's approach is not without flaws, one of which is the neglect of explicitly drawing out the role of taste or personal choice in deciding in what resources and activities individuals want to take part (Mack and Lansley, 1985; Oppenheim and Harker, 1996; Piachaud, 1981). Despite this critique, Townsend's notion of a relative concept of poverty is nevertheless significant for poverty research. It opened up ways for a broader understanding of the term and significantly influenced contemporary debates about poverty. Oppenheimer and Harker (1996), for example, note that low income causes lack of participation in key activities in social life not only in terms of physical needs, but also in terms of taking part in social and cultural customs, such as attending sports clubs or going on school trips, which had not hitherto been considered under the concept of poverty. Townsend, therefore, laid the foundations for articulating multiple deprivation as a concept as opposed to experiencing poverty only (Noble et al., 2003). This is reflected in modern poverty research⁵. For example, the Breadline Britain surveys and the Poverty and Social Exclusion (PSE) survey measure poverty in terms of living standards rather than income. Using the procedure of letting the general public classify socially determined necessities from a list of ordinary household goods, the Breadline Britain studies and the PSE survey draw upon public opinion rather than using a range of predetermined indicators. They, therefore, offer a non-arbitrary measure of poverty which is based on the consumer items and social activities that are classified as 'necessities' by respondents (Pantazis et al., 2006). This is important since

⁵ The 1950s and 1960s saw a 'rediscovery of poverty' research to explore to what extent poverty has been eradicated by welfare reform and the economic growth during the post-war era (Alcock, 2006).

it enables standards to be set for the measurement of poverty which are sensitive to the norms of a given society and relevant for the people residing in this society rather than defining 'objective' measures of standards of living which can be of little meaning for some individuals or societies. The findings of the *Poor Britain* study justify such an approach. The survey confirms that people base their judgement about necessities not just on the criteria of physical needs or subsistence, but also on 'socially established criteria' as is shown, for example, in the denotation of items which merely add to people's quality of life as 'necessities' (Mack and Lansley, 1985).

2.1.1 Poverty as a Normative Concept

Poverty is a normative concept. Jones and Novak (1999) note that contemporary discourses about poverty (and social exclusion) are imbued with 'punitive and negative images of the poor' (cited in Lister, 2004: 103), particularly influenced by the discourses of the 19th century and that of the 'underclass' (Lister, 2004). One of the longest-standing classifications of 'the poor' is that between those who are poor through no fault of their own (the 'deserving'⁶ poor), such as the elderly, disabled and children, and those who are themselves responsible for their poverty (the 'undeserving' poor), particularly those who do not want to work or single parents (Alcock, 2006; Le Grand, 2003; Lister, 2004). Smith (2005) notes that this has been a recurrent theme in Britain at least since the 16th century. With an increase in welfare expenditure during the early 19th century, discussions about a (welfare) dependency culture of the poor emerged (Smith, 2005). This is also a central theme of the notion of a 'culture of poverty' which was coined by Oscar Lewis (see for example, Lewis, 1966). The rationale behind the culture of poverty thesis is that despite economic growth during the post-World War II era, poverty persisted when this should have benefited all groups in society. This is explained by inter-generational transmitted norms and behaviours, which prevent poor people from escaping their conditions over time (Lewis, 1966). According to Lewis (1966) the culture of poverty is:

a subculture with its own structure and rationale, as a way of life which is passed down from generation to generation along family lines (Lewis, 1966: xliii).

⁶ This refers to those who deserve state assistance and support.

Although acknowledging the structural basis of the culture of poverty, which is understood as ‘an adaptation and a reaction’ to the marginal position of poor people in society and as ‘local solutions for problems not met by existing institutions and agencies’ (Lewis, 1966: xliv), Lewis nevertheless depicts the poor as a ‘class’ that does not share the behaviours and morals of mainstream society and needs the help of ‘psychiatric’ social workers in order to become integrated in society. Much like Bourdieu’s (1977) concept of ‘habitus’ - a system of durable, transposable dispositions - which he closely links to individuals’ educational level and social origin, the culture of poverty theorem denies the possibility of individual change.

This understanding of poverty as ‘class’ re-emerged⁷ in the concept of the ‘underclass’, which gained influence in the US and the UK in the 1980s and early 1990s (Lister, 2004). Charles Murray, one of its most influential proponents in Britain, emphasises that ‘the underclass does not refer to a degree of poverty, but to a type of poverty’, defined by its morals and behaviour (cited in Lister, 2004: 108). In contrast to Lewis, who identifies the conditions which bring about certain morals and behaviours among those living in poverty, Murray classifies poor people as being lazy and playing on the state. He identifies a range of behaviours that set the underclass apart from mainstream society, including drug misuse, unwillingness to work, single parenthood, illegitimacy, truancy and violent behaviour (Alcock, 2006; Lister, 2004; Smith, 2005).

The underclass concept has been extensively criticised for its stigmatising and politically damaging effect for those who are described as the ‘underclass’. Lister (2004), for example, notes that it labels poor people ‘in such a pathologising and explicitly Othering way’ that ‘tough, non-inclusive’ policy measures are easily justified (Lister, 2004: 112). However, empirical evidence refutes some of its central propositions. For example, data show that the growth of a dependency culture through the 1980s and 1990s coincides with falling benefit levels in the US and the UK (Smith, 2005), thus undermining arguments of a causality between welfare provision and ‘deplorable’ morals and behaviours of poor people. Despite the lack of empirical

⁷ Already in 1889, Charles Booth distinguished a group of people among the poor that he described as a ‘residuum’, which was characterised by crime and feckless behaviour (cited in Alcock, 2006).

evidence and the stigmatising connotation of the underclass concept, some of its assumptions nevertheless inform current policy debates about poverty and social exclusion, which will be discussed in Chapter 4. The negative connotation of poverty is not without consequences for those living on low incomes. Wilkinson (1996, 2005), for example, emphasises the links between psychosocial factors, such as the impact of the social meanings of poverty and its implications for the social status of those being poor, and health (Wilkinson, 1996, 2005). It also means that those who are poor have to confront prejudices on the side of more affluent individuals as well as face the constraints of their position in society.

2.1.2 Making the Links to Social Exclusion

Townsend's understanding of poverty discussed above perceives poverty as a multifaceted phenomenon which is much broader than just material deprivation. While Townsend integrates the different aspects of deprivation into one concept, others, such as Ashton (1984), make a clear distinction between poverty on the one hand and (multiple) deprivation on the other. He states:

Deprivation is surely about "essential" needs that are unmet. This may be due to a lack of money resources – but it need not be (since adequate resources may be misspent). Poverty, on the other hand, must refer to a lack of money necessary to meet those needs (cited in Spicker, 2007: 47).

An important rationale behind the distinction between poverty – in its narrow definition as deprivation due to a lack of income – and social exclusion is that those who are poor do not necessarily experience social exclusion; conversely people may be socially excluded without being poor (Atkinson, 1998; Rogaly, 1999; Walker, 1997b). Therefore, social exclusion can exist *within* economically similar groups (Barry, 2002), and as such needs to be viewed as a distinct concept. The differentiation of social exclusion from the broader understanding of poverty in terms of (multiple) deprivation, however, is more debatable.

Both concepts focus on a wide range of dimensions of non-participation that go beyond physical needs and consider a range of processes that lead to exclusion other than material deprivation; though most research does not consider all these elements (Burchardt, 2000; Burchardt et al., 2002b). The similarities between the two concepts

seem to suggest that social exclusion, in many ways, is simply a new label for what used to be termed ‘deprivation’ or ‘poverty’ (Burchardt et al., 2002b) and ‘builds on developments that were already taking place within poverty research – towards multidimensional and dynamic approaches’ (Burchardt, 2000: 401). Taking a similar line, Berghman (1995) notes that from a theoretical perspective, the concept of relative deprivation is comparable to that of social exclusion. However, they differ in their practical implementation, in which the social exclusion dimensions are given a broader scope (Berghman, 1995). Similarly, Burchardt and her colleagues (2002) note that ‘[s]ocial exclusion reminds us of the wider field’ (Burchardt et al., 2002b: 6). This allows researchers to ‘discover’ processes which have not been brought up before and clearly distinguishes between causes and consequences of material deprivation. The concept of social exclusion is discussed in detail below.

2.2 The Concept of Social Exclusion

The coining of social exclusion in the modern discourse about social exclusion is generally attributed to René Lenoir’s publication *Les Exclus* (1974); though an earlier reference to social exclusion was made in Jean Klanfer’s *L’Exclusion Sociale* (1965)⁸ (Béland, 2007; Silver, 1994). Lenoir’s concept of social exclusion refers to the one-tenth of the French population that is unprotected under social insurance, including the mentally and the physically disabled, abused children, single parents and other individuals and households affected by multiple disadvantages (cited in Silver, 1994). Central to the notion of social exclusion, as it originated in France, is the Republican idea of social solidarity, which emphasises the role of the state to provide assistance to citizens (Béland, 2007; Silver, 1994). Therefore, unlike previous debates about the underclass, which blamed the poor, social exclusion draws attention to the failure by the state in including all social groups, with significant consequences for the social cohesion and social solidarity of society as a whole, as Silver (1994) stresses:

⁸ In contrast to Lenoir, who refers to the exclusion of citizens because of social and economic conditions, Klanfer focuses on personal responsibility to explain social exclusion (Béland, 2007).

Exclusion entails a risk for each individual in terms of material and symbolic exchange with the larger society. In the terms of Durkheimian rhetoric, exclusion threatens society as whole with the loss of collective values and the destruction of the social fabric (Silver, 1994: 534).

It is largely in the tradition of the French discourse about social exclusion that the term reached the UK although its understanding shifted to emphasise the right of social citizenship rather than social solidarity (Silver, 1994) in academic debates and, in political discourses, is largely based on notions of behavioural causes of social exclusion. The concept of the right of citizenship is based on the tradition of Marshall (1950) who identifies three parts or elements of citizenship: civil (equal rights to individual freedom and justice), political (equal rights to participate in the exercise of political power) and social (equal rights to a minimum standard of economic welfare and security, opportunity to make choices) (cited in Lister, 1990). This concept is extended by Rogaly (1999) in terms of 'economic citizenship' or lack of access to paid and unpaid work, which also encompasses access to financial services, and financial literacy. Social exclusion then refers to a lack of social integration in society as a consequence of 'the denial (or non-realisation) of the civil, political and social rights of citizenship' (Walker, 1997a: 8). This is also in the tradition of thinking of other authors, such as Commins (1993), whose concept draws attention to the denial of rights and to the failure of the systems - the democratic and legal system, the labour market, the welfare system, and the family and community system - which should ensure civic, economic, social and interpersonal integration (cited in Berghman, 1995: 19).

This thinking about disadvantage is new in a British context and constitutes an important departure from concepts which saw the major cause of poverty in the behaviour of the poor themselves.

Unlike the term poverty, the use of which encourages the practice of 'blaming the poor', social exclusion emphasises society's role in *excluding* certain people from full participation (Walker, 1997b: 49, emphasis in original).

The concept of social exclusion is thus much more focussed on processes and on looking for an explanation of exclusion, not in the behaviour of the excluded themselves but in the wider processes that are at large in society. This led to an identification of

multiple processes or dimensions of exclusion, some of which have not been considered in the context of poverty, such as exclusion from the financial system.

2.2.1 Dimensions of Social Exclusion

Social exclusion is a dynamic process and encompasses several dimensions. This became clear in the notion of citizenship discussed above. It has a much broader connotation than the simpler notion of poverty since it focuses on ‘relational issues’ such as ‘inadequate social participation, lack of social integration and lack of power’ (Room, 1995: 5). As Duffy (1995) states:

Social exclusion is a broader concept than poverty, encompassing not only low material means but the inability to participate effectively in economic, social, political, and cultural life, and in some characterisation, alienation and distance from the mainstream society (cited in Walker, 1997a: 8).

The broader conceptualisation of social exclusion makes it possible to analyse ‘hidden forms of social problems’ and processes that had been previously considered to be ‘marginal’ (Burchardt, 2000: 401). Burchardt and her colleagues (1999) define social exclusion as non-participation ‘in the normal activities of citizens’. This is based on the notion of participation in five types of activity:

- Consumption activity – to be able to consume the minimum level of goods and services that are perceived as normal for society;
- Savings activity⁹ – includes assets such as home ownership, savings and private pension provision;
- Production activity – being engaged in economically or social valued activity such as paid employment, caring responsibility and retirement;
- Political activity - being engaged in collective activities that benefit the individual’s immediate or wider social and physical environment;
- Social activity – includes social interactions with family and friends (Burchardt et al., 1999: 231).

⁹ This aspect of social exclusion was omitted in later research and regarded as a subset of consumption activity (Burchardt et al., 2002a).

Rather than using a measure derived from public opinion, like in the PSE survey, the authors themselves consider these activities to represent those in which it is most important that individuals participate in Britain in the 1990s. They are based on the notion that everybody ought to have a reasonable living standard ('consumption'), possesses a degree of financial security¹⁰ ('savings'), is able to take part in an activity that is valued by others ('production'), has some decision-making power ('political') and is integrated in a social network ('social') (Burchardt et al., 1999: 231). The significance of these dimensions is arguable and depends on individual preferences. For example, some might argue that religious activity is an important dimension that should be added; certainly in the context of countries where religious activities play an important part in social and cultural life. In addition, the above activities may have a different significance for different individuals in Britain. For example, the importance of savings activities or financial security may depend on individuals' readiness to assume risk.

Burchardt et al. (1999) list several factors that influence these areas of participation, including those that are related to individual's own characteristics, events in people's life, characteristics of the area in which people live and the key institutions of society such as the welfare state or discrimination based on race. To guarantee full inclusion, Burchardt and her colleagues (2002a) then rightly argue that participation is necessary in each of these dimensions. They note that there is no distinct and homogenous group of completely socially excluded individuals over time. Rather than being excluded or included on each of these dimensions, social ex-/inclusion can be described as a continuum, with people being more or less excluded over time, as the researchers notes:

the evidence¹¹ (...) does not fit easily with the idea of an underclass, cut off from mainstream society. Rather, inclusion and exclusion are found to be on a continuum, both across dimensions of exclusion and by duration (Burchardt et al., 2002a: 41).

¹⁰ This, however, would include other financial services such as insurance products that help people to deal with the consequences of (unexpected or expected) events in their life.

¹¹ Based on their analysis of data from the British Household Panel Survey for the years 1991 to 1998.

Furthermore, in contrast to an ‘underclass’, an ‘overclass’ can be observed, which refers to those who were never excluded on one of these dimensions during the measurement period. Although Burchardt et al.’s (1999, 2002a) data reveal that there is no homogenous group of people that is completely ‘shut out’ from society over time, there is evidence that exclusion in one dimension in one year increases the likelihood of exclusion on the same dimension in the following year. Furthermore, long-term exclusion on a particular dimension seems to increase the risk of multiple exclusion. It is shown later in the context of financial exclusion that different aspects of the phenomenon are also inter-related.

Researchers look at the phenomenon of social exclusion in different ways. While some, like Burchardt and her colleagues, refer to social exclusion in terms of non-participation and examine the different kind of activities from which people are excluded, others concentrate on the different aspects of exclusion which lead to non-participation, for example low income. In other words, while some concentrate on the outcomes of social exclusion, other refers to social exclusion in terms of processes. Nevertheless, both approaches use similar indicators and focus the analysis on the relationship between different dimensions of social activities (e.g. consumption and production activity) or different aspects of exclusion (e.g. low income and labour market exclusion). Whatever the focus of research is, there is consensus that social exclusion is a dynamic concept (see for example, Berghman, 1995; Burchardt et al., 1999; Giddens, 1998; Walker and Walker, 1997): a product of individual action as well as economic, social and political processes. Giddens (1998) for example, refers to social exclusion as ‘mechanisms that act to detach groups of people from the social mainstream’ (Giddens, 1998: 104). As a consequence, individuals are excluded ‘from any of the social, economic, political and cultural systems which determine the social integration of a person in society’ (Walker and Walker, 1997: 8). Conversely, one can argue that social exclusion refers to a state in which people can be called ‘poor’, ‘inactive in consumption activity’ and so on. Therefore, while people are called ‘poor’, this is often the outcome of more complicated social processes; conversely, poverty is part of these wider processes and can contribute to exclusion in other areas. Exclusion is hence, ‘both a process and a state which enshrines a lack of integration’ as Loisy (2000) notes (cited in, Gloukoviezoff, 2007: 214). This is also important in the context of financial exclusion, which can both describe a state and a process as part of the wider dynamic processes of social exclusion.

2.2.2 Social Exclusion as a Dynamic Concept

Burchardt et al.'s (1999, 2002a) research suggests that social exclusion is a dynamic concept: people move in and out of social exclusion and are affected by different dimensions of the phenomenon over time. This is consistent with other studies, such as analyses based on the PSE survey and research on poverty dynamics more specifically (see for example, Burgess and Propper, 2002; DWP, 2007b; Gordon et al., 2000; Jenkins, 2000). Again, this is not a new notion. The dynamic character of deprivation has already been conceptualised in Rowntree's 'life cycle of poverty' concept, which identified individuals being either above or below the 'primary' poverty line at various stages of their life (Rowntree, 2000). Despite its dynamic character, social exclusion on various dimensions can be a persistent experience for some. Therefore, one could argue that for the minority of people who experience exclusion over a long period of time, this can be a state or a way of living. Nevertheless, to say that social exclusion is 'static' denies people the possibility of change.

2.2.3 The Role of Individual Agency in Explaining Social Exclusion

Another important element of discussions about social exclusion is the role of individual agency or choice. The starting point of these debates is that individuals are not necessarily denied participation in society, as in the case of involuntary unemployment, but some may exclude themselves *voluntarily* from activities that are customary in their society. This is expressed in the following quotation by Atkinson (1998) that '[e]xclusion implies an act, with an agent or agents' (Atkinson, 1998: 14).

One of the definitions which incorporates choice as an aspect of exclusion is the initial meaning adopted by the Centre for Analysis of Social Exclusion (CASE).

An individual is socially excluded if (a) he or she is geographically resident in a society but (b) for reasons beyond his or her control he or she cannot participate in the normal activities of citizens in that society and he or she would like to participate (Burchardt et al., 1999: 229).

This refers to people as being 'excluded' only if they do want to participate, but are denied participation and so exclusion is beyond their control. Conversely, those who do not participate 'in the normal activities of citizens' and do so voluntarily are not socially

excluded. In a similar attempt, Le Grand (1991) suggests a close relationship between equity and the existence of choice. According to his notion of equity and choice, an individual's situation is only considered to be 'inequitable' if the situation has arisen because of factors beyond his or her control or if choices are constrained (Le Grand, 1991). Equity thus 'requires equality of choice sets' as well as 'informed individuals' (Le Grand, 1991: 91, 87). This is a concept which can also be applied to notions of social exclusion and financial exclusion more specifically, as will be shown later in the text.

The operationalisation of choice in social exclusion research: Studies that include choice as an element of social exclusion are, for example, the Breadline Britain surveys, which were discussed in the previous section, and their successor the PSE survey. While the PSE survey refers to social exclusion as a 'lack or denial of access to the kinds of social relations, social customs and activities in which the great majority of people in British society engage' (Gordon et al., 2000: 73), Mack and Lansley (1985), in the first of the Breadline Britain surveys conducted in 1983, define poverty as 'an enforced lack of *socially perceived* necessities', such as a lack of adequate housing and essential clothing (Mack and Lansley, 1985: 45, emphasis in original). Therefore, the role of choice plays an important part in the latter study in explaining exclusion. The findings of the *Poor Britain* survey seem to justify such an approach:

Overall, the relationship between income and lack of necessities because of lack of desire suggests that these people are, indeed, largely *choosing* to go without rather than being forced into this situation. To exclude this group from the measure (...) is therefore, to a large extent, to 'control for taste' (Mack and Lansley, 1985: 94, original emphasis).

The findings of the *Poor Britain* study demonstrate that individuals, in fact, made choices about not having a particular item included in the lists of necessities or non-participation in an activity, hence justifying a distinction between enforced and voluntarily exclusion. In contrast, analysis of PSE survey data suggests a positive relationship between income and participation (Gordon et al., 2000). In this context, Levitas (2006) points out that: 'whatever people say about not wanting to participate in, or not being interested in, particular activities, low income restricts participation' (Levitas, 2006: 150). In a similar line of argument, Townsend did not differentiate

between exclusion that was enforced or apparently voluntary because he felt that ‘people’s feelings of “choice” are themselves determined by their economic situation’ (cited in Mack and Lansley, 1985: 90). Therefore, the feeling that one does not want an item that is habitual in society or does not wish to partake in social activities is not an expression of real choice but is determined by people’s *opportunity* to partake and depends ‘on the quality of the choices on offer’ (Barry, 2002: 14). This is also acknowledged by Mack and Lansley (1985) to some extent, who note that choices made by those on the bottom of the income distribution were often constrained by low income and as such not completely voluntary.

Another example which is presented in the literature to illustrate the problem of determining voluntary acts of social exclusion is that of individuals or members of groups who withdraw themselves from the rest of society in response to hostility and discrimination. Although the actual act of exclusion may be voluntary, that is, a decision is made by the individual or members of a group rather than by somebody else, its context can still make it a case of social exclusion on the basis that this decision was influenced by external factors and exclusion would not have happened without hostility and discrimination (Barry, 2002). In fact, research demonstrates that most acts of non-participation are involuntary or cause distress to the individual in some ways or another (Burchardt et al., 1999: 231). In this context, lack of disposable income or poverty is understood to be a major contributory factor to social exclusion (Gordon et al., 2000; Rogaly, 1999; Walker, 1997b). For example, poverty can reduce people’s capacity to partake in social life and reduce the number of social contacts they have. In other words, as Rogaly (1999) points out, ‘poverty, which is often an aspect of social exclusion in terms of lack of economic citizenship, also makes *social* non-citizenship more likely’ (original emphasis) (Rogaly, 1999: 9).

Overall, the arguments presented here suggest that choices are often restricted and thus acts of exclusion are not truly voluntary. In these cases, non-participation in an activity can be regarded as a case of social exclusion. Although there are some arguments in the literature for treating all acts of non-participation as ‘socially problematic’ and thus cases of social exclusion since they violate social solidarity and can create inequality of opportunity (Barry, 2002), it is nevertheless important to recognise the role of individual agency since this grants individuals the possibility of change. Giddens’ (1991) conception of agency under conditions of late modernity confirms this. He

stresses that individuals are active agents in shaping their own trajectories (Giddens, 1991). The notion of individual choice and action is also central to contemporary theories of individualisation (see for example, Beck and Beck-Gernsheim, 2002). Socially excluded people are therefore not just passive citizens that are denied participation: more complex processes are at work. What is important, however, is that individuals are able to choose amongst a wide range of feasible options and make informed decisions, as proposed by Le Grand (1991).

Overall, the previous sections have discussed the central issues of the concept of social exclusion : the dimensions of social exclusion and its key characteristics such as its dynamic character and the role of choice in explaining exclusion. What is missing in the discourses about individuals' inability to participate effectively in economic, social, political and cultural activities is their distance from the financial mainstream. How this aspect of exclusion emerged in the literature is explored below.

2.2.4 Service Exclusion

The PSE survey is one of the first studies¹² which includes individuals' distance from the financial system as an aspect of service exclusion within the broader framework of social exclusion. Here, four dimensions of social exclusion are identified:

- Impoverishment – exclusion from adequate income or resources;
- Labour market exclusion – not in paid work or unemployed;
- Exclusion from social relations – social isolation and non-participation in common social activities; and
- Service exclusion – exclusion from in-home services and outside-home services (Gordon et al., 2000: 6).

Alongside the dimensions of social exclusion that are widely acknowledged in social exclusion literature, the PSE survey includes service exclusion as one aspect of social exclusion. This refers to the non-use of three or more public and private services

¹² Also Burchardt and her colleagues mention savings activity in their conception of social exclusion, this needs to be understood more in terms of financial security rather than exclusion from the financial system.

because of their unavailability or costs (Fisher and Bramley, 2006). Similarly, Speak and Graham (2000), in their research, suggests that exclusion from services exists when the use of a service is limited or made difficult 'to such an extent that it adversely affect[s] everyday living' (Speak and Graham, 2000: 10).

Under the term 'service exclusion' is summarised a wide range of services. Gordon et al. (2000) make the distinction between services in the home such as utility services, and outside the home public and private services such as transport, libraries, hospitals, shopping facilities and financial services. Asked whether services are not available or unsuitable ('collective exclusion') or unaffordable ('individual exclusion'), they find that, more often than not, lack of availability rather than lack of affordability is the main barrier to using both public and private services (Gordon et al., 2000: 56). This indicates that service exclusion is a phenomenon that impacts on the collective rather than the individual level, with services being unavailable to some sections of society or in some areas. Service exclusion is related to other aspects of social exclusion, particularly labour market exclusion, and contributing factors such as health and disability (Gordon et al., 2000). Although affordability of services may not be a key determinant for people's use of these services¹³, poor households nevertheless 'face poorer-quality services' (Fisher and Bramley, 2006: 227). In addition, low income often reinforces constraints on service usage, particularly in the case of private-service usage where affordability is of greater importance than for public-service usage (Fisher and Bramley, 2006). In fact, one in ten respondents in the PSE survey stated that they had rationed their use of utilities because water, gas, electricity or telecommunication services were unaffordable (Gordon et al., 2000). Similarly, research suggests that some households self-disconnect from utilities because of costs (Drakeford, 1997; Kempson, 1997a).

In turn, poor services, in terms of quality of services and access to service provision, often manifest themselves in certain neighbourhoods. There, they are an expression of deprivation more generally and often associated with further decline and deterioration of neighbourhoods and the life chances of residents. According to Lupton and Power (2002):

¹³ Less than five per cent of households stated that they are unable to use public and private services because of costs (Fisher and Bramley, 2006).

A concentration of people on low incomes can result in the withdrawal of shops and financial services which can no longer operate profitably. (...) An unfavourable operating environment also impacts on public services, which struggle anyway to respond to the extra demands of many households with economic and social problems (Lupton and Power, 2002: 135).

The first of these processes – the withdrawal of financial services from areas of deprivation – is extensively discussed by Leyshon and his colleagues. They refer to this process as ‘financial infrastructure withdrawal’ (Leyshon and Thrift, 1993), ‘financial desertification’ (Thrift and Leyshon, 1997) or ‘financial exclusion’ (see for example, Leyshon, 1994). This process, as Leyshon and Thrift argue, ‘has introduced an element of exclusion and closure to the operation of financial systems’, which means the ‘abandonment’ of some social groups and localities (Leyshon and Thrift, 1993: 223). It is also described for other key private sector services such as shopping facilities (‘food deserts’)¹⁴ and utilities (Speak and Graham, 1999, 2000). Service exclusion, in this respect, plays a central role in processes of social exclusion more generally. Van Kempen (1997) points out that:

Living in certain neighbourhoods may exacerbate the poverty problem by affecting the life chances of people negatively. (...) This has not only to do with the quality of goods and services offered but maybe even more so with the difficult access poor people in poverty pockets have to provisions (Van Kempen, 1997: 430).

As a consequence, neighbourhoods where the poor live are often less a ‘community of choice’ than a ‘community of fate’, with little prospect and opportunity for residents to improve their ‘life chances’ (Dahrendorf, 1979 cited in Van Kempen, 1997: 444). This has also consequences for area regeneration since a lack of services ‘[make] places less attractive to live in’ (Speak and Graham, 2000: vi). Therefore, alongside access to public services, including health, education and social services, access to basic private

¹⁴ This describes a process of withdrawal of local food shops from certain areas and the problems associated with accessing supermarket outlets (Speak and Graham, 2000). In addition, ‘food deserts’ are created by supermarket chains that concentrate their attention on a specific customer base (Thrift and Leyshon, 1997), which make certain supermarkets too expensive to use or inaccessible for certain customers.

services is essential for people's participation in social and economic life. They form the 'basic prerequisites for a "normal" daily life' (Speak and Graham, 2000: 1). Having to restrict use of utilities, for example, has consequences for individuals' health as they cannot heat their home sufficiently. They also cannot easily keep in contact with friends and family or phone employers, thus service exclusion has consequences for individuals' social and economic life. In addition, as Speak and Graham (1999) emphasise, the phenomenon needs to be understood as a continuum. Supply of services does not imply access, neither does access entail (meaningful) use of a service; hence service exclusion needs to be understood as spectrum, with unrestricted use of services at one end and non-use or (self-)disconnection ('total exclusion') at the other (Speak and Graham, 1999: 1993).

The need for financial services and the difficulty of some individuals with accessing financial products have been increasingly recognised in the literature as a concept in recent years. The concept of financial exclusion is the central subject-matter of this research and is explored in detail in the following section.

2.3 The Concept of Financial Exclusion

Financial exclusion is a relatively new concept. The term was first used by Leyshon (1994) to describe geographic processes of financial exclusion. The research of Leyshon and his colleagues, particularly Thrift, sits alongside other studies that explore people's use of financial services (see for example, Berthoud and Kempson, 1992; Kempson, 1994, 1998b; Kempson and Whyley, 1998; Rowlingson, 1994). Although the term 'financial exclusion' is neither specifically used in these studies, these studies explore important aspects of the phenomenon, such as the implications of not having banking services for the payment of bills or the consequences of the usage of certain types of credit such as moneylenders and mail-order catalogues on household finances.

Why has exclusion from financial services emerged as an issue? One way of answering this question is by looking at the increasingly 'financialisation' of everyday life in modern society.

2.3.1 *The ‘Financialisation’ of British Society*

The use of financial services in everyday life has become increasingly widespread in the UK in the last three decades or so. The 1980s saw a decade of rapid growth of the financial services industry in Britain, fuelled by the de-regulation of the financial market, which encouraged greater competition between financial institutions (Berthoud and Kempson, 1992; Leyshon and Thrift, 1995; Leyshon and Thrift, 1997). This saw the costs of financial services fall sharply (e.g. introduction of free banking¹⁵), while the sector sought actively to draw more people into the financial market, including many of those at the lower end of the income scale, as Leyshon and Thrift (1995) suggest:

More people than ever before were drawn into the financial system (...) the financial system began to reach into nooks and crannies of the British social fabric which it had previously shunned (Leyshon and Thrift, 1995: 316).

In the mid-1970s, less than half of all households had a current account (45%), while this rose to between 80 and 85 per cent in the early 1990s (Kempson, 1994: 4). This is also true for the levels of borrowing which grew significantly during this period. As a consequence of lifting traditional controls over the supply of credit and the encouragement of competition between financial institutions, borrowing among low-income households, which had previously found it very difficult to access mainstream credit, more than tripled between 1980 and 1989 (Berthoud and Kempson, 1992; Ford, 1991). By the late 1980s, levels of overall household indebtedness were more than 100% of disposable income in Britain (Leyshon and Thrift, 1993: 228).¹⁶ In addition, consumers had a larger number of credit commitments and borrowed more money than was previously the case (Kempson et al., 1994). It was particularly credit cards that epitomized the ‘credit society’ of the 1980s (Kempson et al., 1994: 185).

¹⁵ Until 1985, many people were effectively excluded from banking services because of the requirement for deposits and references when opening an account and the imposition of charges on those who had a balance of usually less than £100 in their account (Toporowski, 1986).

¹⁶ A great portion of overall household indebtedness were people who got mortgages, also many on lower incomes (i.e. introduction of the Right to Buy legislation in 1980).

The greater supply of financial products corresponded with an increasing demand for these services. This was most notably influenced by the rapid development of information technologies, allowing payment via Automated Cash Transfer (ACT) of money directly into bank accounts¹⁷, including wages (Kempson et al., 2000). As a consequence, more employees had to open a bank account in order to get paid. In 1969, three quarters of employees received their wages in cash (Kempson, 1994: 4). This number has declined significantly since electronic money transfers were introduced, with only 23% being paid in cash by 1988 (*ibid.*) and seven per cent in 2006 (APACS, 2007: 16). More recently, the decision of the government to introduce electronic payments of social security benefits from 2003 has made it increasingly necessary for benefit recipients to open a bank account and, in 2004, 75% of benefit recipients were paid benefits via ACT (HM Treasury, 2004). As financial services have become more customary in an increasingly cashless and electronic economy (Pahl, 1999), they also have become a necessity 'because other aspects of life are planned and built on the very fact that these items are customary' (Mack and Lansley, 1985: 55-56). It is therefore largely in the context of society that being without some financial products has severe social and economic consequences, even more so as those outside the financial system are reduced to an increasingly smaller minority, as Toporowski (1986), for example, comments:

those excluded from financial markets, who are mainly the poor, have the disadvantage of their poverty compounded by their inability to perform what have become quite elementary financial transactions (Toporowski, 1986: 55).

Gloukoviezoff (2007) refers to this process as 'the financialisation of social relations' (Gloukoviezoff, 2007: 222). This argues that financial services are now necessary 'to lead a normal social life' (Gloukoviezoff, 2007: 224) and 'an essential component of life in modern society' (Conaty and Mayo, 1997: 12). The necessity for financial products also needs to be understood against the decline of social welfare provision and

¹⁷ The term 'bank account' is often used to refer to current accounts with either a bank or building society. This is also true for this research. A differentiation, however, is made between bank (current) accounts, basic bank accounts, savings accounts and POAs. In contrast, the term 'banking products/services' refers to all of these, except savings accounts.

‘erosion of “state capital”’ (Wacquant, 1998: 25), which make it increasingly necessary for individuals to make their own provision against risk through the purchase of financial products in order to top up unavailable or inadequate public assistance (Anderloni et al., 2007; Burchardt and Hills, 1998; Gloukoviezoff, 2007; Leyshon and Thrift, 1997). This ‘financialisation’ of British society means that effective participation in mainstream society now entails the use of a wide range of financial services, with significant consequences for those who are not able to access and/or use these products if they need them. Overall, three types of financial services are identified in the literature (Fisher et al., 1999; Kempson and Whyley, 1999b; Sinclair, 2001):

- *Transmission services* - allowing receipt and transfer of money and cheques (banking services);
- *Protective services* – offer long-term and medium-term financial security and protection against fluctuations in income and expenditure (life assurance, private pension provisions, home contents insurance, savings and credit); and
- *Promotional services* - facilitate autonomy and enable individuals to promote themselves (e.g. loans for starting up micro-enterprises).

The need for these services, however, varies. While lacking basic transmission services, such as basic bank accounts, or protective services, such as savings, credit and insurance, has significant implications for people’s participation in society and their health and well-being more generally¹⁸, promotional services are not relevant to all of those who are excluded from the financial system because of the great risks and costs associated with starting up an enterprise¹⁹ (Fisher et al., 1999). Exclusion from each of the areas above has various implications both for individuals and for society as a whole. For example, while the implications of not having transmission services may only affect the individual, being excluded from long-term protective services such as private pensions is likely to have wider implications for society since the state, for instance, needs to compensate for individual’s lack of provision.

¹⁸ Researchers, for example, point to the costs of not having or using transmission services or the consequences of being without protective services such as home contents insurance (see for example, Kempson and Whyley, 1999b; Kempson et al., 2000; Sinclair, 2001; Whyley et al., 1998).

¹⁹ The exception might be a taking out a loan for further education.

2.3.2 Degrees of Financial Exclusion

Different degrees of financial exclusion are identified. Rather than being completely ‘outside’ the financial system, as, for example, suggested by Leyshon and Thrift (1997), financial exclusion is multi-faceted, with different degrees of exclusion being identified across a wide range of financial products and services and levels of utilisation. This is widely agreed in the literature (see for example, Kempson and Whyley, 1999b; Regan and Paxton, 2003; Speak and Graham, 2000). In this context, people’s level of engagement with specific financial products as well as level of access varies. According to research conducted by Kempson and Whyley (1999b), a larger number of households are marginally included, having only one or two financial products, in comparison to a minority of households that are without any mainstream financial products. With respect to low levels of utilisation of banking services, the term ‘underbanked’ is also used as opposed to being ‘unbanked’²⁰ or without any kind of banking service provision, including a post office card and credit union account.

2.3.3 Financial Exclusion: State or Process?

Financial exclusion is both defined as a state and a process. In the narrow sense financial exclusion refers to the exclusion from certain financial products and services, while, more broadly, it describes the processes which have the effect of ‘shutting out the less well off from mainstream money services’ (Sinclair, 2001: 14). The consequences of these exclusionary processes have already been highlighted to some extent in early research by Leyshon and Thrift, particularly in relation to community degeneration (see for example, Leyshon, 1994; Leyshon and Thrift, 1995), but is emphasised to a greater extent by subsequent authors, particularly Elaine Kempson and her colleagues. In one of the first comprehensive studies of financial exclusion, Kempson and Whyley (1999b) point out that processes of financial exclusion contribute to processes of area degeneration.

²⁰ The term has gained currency since the 1980s (see for example, NCC, 1983; Toporowski, 1986).

Where whole communities have limited access to financial products, the process becomes self-reinforcing and an important contributor to social exclusion more generally (Kempson and Whyley, 1999b: 22).

On the individual level, financial exclusion creates difficulties with regard to day-to-day personal money management, longer and medium-term financial security and purchasing consumer goods (Kempson and Whyley, 1999b: 22-29). Moreover, it is a dynamic concept. For example, Kempson (1994), in her study of banking notes that only a minority of households had never had a current account at any time in their lives. Banking exclusion is, then, more dynamic, with households suspending or closing down accounts when circumstances change, particularly in case of unemployment. This is also confirmed for other types of financial services such as savings products (Kempson, 1998b) and home contents insurance coverage (Whyley et al., 1998). There is thus ample evidence that financial exclusion is both a dynamic and multidimensional concept. Nevertheless, processes that lead to exclusion from financial services (e.g. geographic withdrawal of financial institutions), the outcomes of these (e.g. banking exclusion) as well as the wider implications of being financially excluded (e.g. impoverishment) should be treated as separate concepts in order to facilitate an understanding of the causes and consequences of financial exclusion.

2.3.4 Voluntarily and Enforced Financial Exclusion

Given the importance of financial services in today's society, some authors argue that citizens need to have the right of 'financial citizenship' in order to fully participate in society (Leyshon and Thrift, 1995). Financial inclusion hence can be seen as a basic human right, which is for example expressed in the laws of some European countries like France, which give citizens the *right* to a bank account. To some extent this reflects the degree of financialisation of social relations. For example, in France it has not been possible to receive salaries without having a bank account since 1968 and state benefits have been paid electronically from 1978 (Gloukoviezoff, 2007: 223). In this context, transmission services need to be seen as essential, rather than optional services. Nevertheless, a degree of choice exists in deciding which type of transaction services people want to use (ranging from very basic services to more sophisticated banking products) and how they want to use available products (e.g. use of automated banking). In this context, the right to a bank account does not define the use of banking services. This diversity with respect to accessing and using banking products is widely

acknowledged in the literature (Kempson, 1994; Kempson and Whyley, 1998, 1999b; Kempson et al., 2000; NCC, 1983; OFT, 1999a; Speak and Graham, 2000).

Choice or personal preference also play a role in explaining (non-)access to other types of financial services. For example, the need for protective services arises from an increasing dismantling of the welfare state, but it also depends on individuals' own perception of risk. In this context, researchers note that some people choose to remain without insurance because they feel they do not need it or have a greater readiness to assume risk (Kempson et al., 2000; Whyley et al., 1998).²¹ The same accounts for promotional services. Although consumer credit can be seen as an essential service to smooth consumption when income or expenditure change, research notes that some people are clearly averse to borrowing and 'make a free and unconstrained choice not to use credit' (Kempson et al., 2000: 41) or people prefer to use a particular source of credit while other sources may be available, such as in the case of making use of sub-prime lending (Ford and Rowlingson, 1996). This highlights that taste is important in understanding people's lack of use of financial services. On this, Kempson and Whyley (1999) state that:

Financial exclusion occurs for a variety of reasons (...). It encompasses outright exclusion in the form of companies refusing to accept certain households as their customers, and people who self-exclude by making an active and unconstrained choice not to have any financial products (Kempson and Whyley, 1999b: 14).

This clearly acknowledges the importance of choice in explaining financial exclusion. Nevertheless, the researchers note that for most people the process is much less clear-cut than the differentiation between direct exclusion and voluntary self-exclusion; rather 'there is a grey area where people face barriers that encourage self-exclusion' (Kempson and Whyley, 1999b: 2). In this case, people still need to be understood as 'financially excluded' since their withdrawal from the financial system happened in a response to a (perceived) narrow set of opportunities, such as their anticipated refusal of mainstream

²¹ This applies particularly to certain insurance products which a large proportion of people do not use, such as protection in case of unemployment and ill health (Kempson et al., 2000). In the context of home contents insurance, however, the need for such insurance is clearly pointed out (Whyley et al., 1998).

financial services. Research offers ample evidence on the barriers that financially excluded individuals experience and which prevent financial inclusion.²² The apparent and perceived extent of individual choice is in this context important, alongside structural barriers.

The operationalisation of choice in a definition of financial exclusion: Assuming that in some cases genuinely voluntarily acts of disengagement from financial services²³ occur, the question remains whether those who freely decide not to engage with the financial system in some way or another should be included in the definition of financial exclusion. In other words, are those who are excluded from the financial system by unconstrained choice truly ‘financially excluded’? Devlin (2005) suggests that, in this case, people’s choice needs to be accepted as genuine and hence, not as an act of financial exclusion. He states that:

people may simply have no need for, say, a personal loan and cannot be considered as excluded from such a market if not using that product type (Devlin, 2005: 77).

However, it is not known if people would be denied access should they approach a bank for credit or other financial services. Under some circumstances²⁴ people then can be said to be at risk of financial exclusion without actually experiencing exclusion at the time. In contrast to Devlin’s understanding of financial exclusion, Kempson and Whyley (1999) refer to all those as being ‘financially excluded’ ‘who lack any financial product, *regardless of the reason*’ (Kempson and Whyley, 1999b: 2, my emphasis). This agrees with some of the more recent definitions of the concept (see for example, Carbó et al., 2005; McKillop and Wilson, 2007), which encompass those people who are excluded by choice as well as those who are directly denied access or experience a range of barriers that lead to self-exclusion. As pointed out previously, there is similarly no consensus about the inclusion of voluntary acts of self-exclusion in definitions of

²² One of the first comprehensive overview is given by Kempson and Whyley (1999b).

²³ Under the premise that self-exclusion does not happen in response to a (perceived or apparent) narrow opportunity set and an apparent mismatch between supply and demand of financial products.

²⁴ Chapter 3 discusses the factors that are associated with a greater risk of financial exclusion, such as living on a low income, being a single parent or long-term unemployed.

social exclusion. While the initial definition of CASE, like Mack and Lansley's (1985) understanding, refers to social exclusion as an act of enforced exclusion ('he or she would like to participate' (Burchardt et al., 1999: 229)), the PSE survey, for example, uses a definition that embraces both aspects ('lack or denial of access' (Gordon et al., 2000: 73)). In practical terms, however, financial exclusion is generally discussed in the context of enforced exclusion rather than exclusion by choice. Although acknowledging the possibility of genuinely voluntarily financial exclusion, there is agreement that most people will, in fact, experience barriers to inclusion rather than making an unconstrained choice of self-exclusion.

Large numbers of households are not being denied access to all forms of financial service provision; nor have they made an unconstrained choice to opt out. Instead, most of them face a range of barriers (Kempson and Whyley, 1999b: 41).

Although individuals' choices may be often constrained in one way or another - and this may not always be apparent - it needs to be acknowledged that some make informed decisions about using financial services and choose not to use certain financial products despite the availability of a range of feasible options.

While the initial literature on financial exclusion has largely concentrated on (geographic) access to financial services, there is now a growing body of research which takes into consideration people's preferences in choosing certain financial products (see for example, Ford and Rowlingson, 1996; Kempson and Whyley, 1999b; Rowlingson, 1994). This body of literature is not only helpful in understanding consumers' needs better when designing and delivering financial products, but also acknowledges the importance of individual preferences and thus, choice in determining use of financial services. In addition, there is a body of literature - as mentioned above - that highlights the importance of taste and thus voluntary self-exclusion in understanding processes of financial exclusion. In comparison to the concept of social exclusion *per se*, exclusion from financial services is more subject to taste, since most people, assumingly, do not want to be poor or set value on having social contacts (either at work or at home), but may decide not to use consumer credit. Voluntary acts of exclusion, therefore, need to be distinguished from cases where exclusion was influenced by a range of constraints.

2.3.5 *Considering Use of Financial Services*

The term ‘financial exclusion’ was coined by Leyshon and Thrift (1995) to describe processes by which certain social groups and individuals are prevented from entering the financial system. Kempson and her colleagues, in 2000, stressed that ‘financial exclusion is not just about physical access caused by the changing geography of financial service provision’, but refers to ‘a complex set of barriers to *accessing and using* mainstream financial services’ (Kempson et al., 2000: 9, my emphasis). However, the aspect of using financial services as opposed to access was not a prominent feature of conceptualisations of financial exclusion until recently; partly because of the scale of the problem of access²⁵ and the visibility of the this issue, as Gloukoviezoff (2007) suggests. Regan and Paxton’s publication *Beyond Bank Accounts: Full Financial Inclusion*, published in 2003, was seminal in addressing this aspect of financial exclusion: people need access, when appropriate, to a range of products and services (‘breadth of needs’), but also the opportunity and ability to use these (‘depth of engagement’). This reflects a broader and more precise understanding of the complex nature of financial exclusion, which has become an increasingly researched phenomenon, in particular with respect to the usage of bank accounts (see for example, BMRB Social Research, 2006; Clark et al., 2005; Midgley, 2005). Furthermore, such an understanding of exclusion rejects ‘[t]he obvious definition of “no access to a service or facility”’ as being ‘too simplistic’ (Speak and Graham, 2000: 10).

Financial literacy and capability: Financial exclusion is now increasingly defined in terms of access and use of financial products and services, although some authors continue to refer to the phenomenon in the narrow sense as lack of access to financial products (see for example, Marshall, 2004) or inappropriate access (see for example, Anderloni et al., 2007; Byrne et al., 2005). Moreover, researchers emphasise that people need to be able to make effective use of financial products in terms of financial literacy and capability. Hayton et al. (2007), for example, suggest that without being financially literate and capable ‘households can be locked in a cycle of poverty and exclusion or suffer as a result of inappropriate product choice, high cost credit or, for some, illegal

²⁵ In comparison to some other European countries, the UK had relatively low penetration rates of bank account ownership in the early 1990s (Kempson, 1994).

money lending’ (Hayton et al., 2007: 86). In terms of financial literacy, this means, for instance, that individuals and households need to have ‘a knowledge of sources of credit (...) and an understanding of basic financial terminology, such as annual percentage rates’ (Rogaly, 1999: 23). In contrast, the concept of financial capability, which is often incorrectly used synonymously, ‘moves beyond objective knowledge (...) to include responsible and informed *behaviour*’ (Brazewell et al., 2005: Appendix A, my emphasis). Overall, the incorporation of the concepts of financial literacy and capability into definitions of financial ex-/inclusion implies a greater concern for individuals’ difficulty in understanding financial services and effectively using financial products. This has policy implications, as will be shown in Chapter 4.

One of the definitions that highlights many of the things discussed in this section is the one employed by the European Commission’s financial exclusion study, which involved financial exclusion ‘experts’ in 15 member states.

Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong (European Commission, 2008a: 9).

This understanding of financial exclusion sums up several important aspects of the concept. Firstly, financial exclusion is conceptualised in terms of difficulty in accessing and/or using financial products. It is also a relative concept which needs to be defined in relation to the society in which people live and refers to exclusion from the ‘mainstream market’ to which the majority of people have access. Thirdly, financial exclusion is not just about access but the *appropriateness* of available financial products and services. This is an important point that is made by a range of authors (see for example, Gloukoviezoff, 2007; Quinn, 2008). It implies that financial exclusion is not simply about offering people a range of financial products regardless of their appropriateness for consumers: products need to be responsibly chosen and offered. According to this, it is not necessarily negative when people are refused certain financial products, such as credit, when these are not appropriate to their needs and circumstances. In contrast, financial exclusion occurs when the quality of services provided is not guaranteed and non-appropriate services are made available to consumers. Ultimately, processes that lead to financial exclusion contribute to the broader dynamic processes of social

exclusion, since people cannot ‘lead a normal life’ without financial products. Several of these aspects are incorporated into a working definition of the concept discussed below.

2.3.6 Towards a Working Definition of Financial Inclusion

There are now more researchers that conceptualise financial *inclusion*, rather than exclusion. This implies a more positive and forward-looking view (i.e. what should be achieved in terms of financial inclusion) and builds on the multi-dimensionality of the concept. In this context, Regan and Paxton (2003) note that the experience of financial inclusion:

is not just about access to products but also the quality of engagement with those products and the need for individuals to develop skills and confidence to make informed decisions (Regan and Paxton, 2003: 1).

Ownership of a bank account, for example, is not enough to promote meaningful inclusion (Anderloni et al., 2007; BMRB Social Research, 2006; Corr, 2006; Kempson, 2006) since an account may be inaccessible due to being overdrawn or may be only used for receipt of money, thus constituting a case of ‘exclusion within inclusion’ (Clark et al., 2005). This is taken into account in the following working definition of financial inclusion:

Financial inclusion refers to individuals’ ability to access and effectively use appropriate mainstream financial products and services.

In order to be able to access and effectively use financial products, individuals need to have a range of skills, information and confidence, but also need to have access to a wide range of appropriate financial products in the financial mainstream. This understanding of financial inclusion implies that responsibility in bringing financial inclusion forward is shared amongst a range of actors: individuals themselves, but also the state and financial institutions as providers of financial products and to better the circumstances of individuals through social policies. Ultimately, ‘ability’ refers to individuals’ apparent as well as perceived abilities in relation to financial inclusion. For example, people need to be aware of the choices they have.

As pointed out above, access to a financial product is of little meaning if people cannot or do not want to make use of it, hence, access to *appropriate* services is a central element of the definition of financial inclusion. What is deemed as ‘appropriate’ by individuals is highly subjective. The same needs and circumstances are not always perceived in the same way by different people. In addition, people may act upon a narrow opportunity set, and therefore choose the most ‘appropriate’ product amongst a limited range of (perceived) choices. There are nevertheless some indicators that make it possible to assess whether financial products are suitable. Firstly, financial products are appropriate if they reflect individuals’ financial needs and circumstances (e.g. affordability of loan repayments), as, for example, suggested by Speak and Graham (2000). Secondly, financial products are appropriate if they are not exploitative and offer fair conditions in terms of costs, provision and structure. Of course, what one considers to be ‘fair’ depends on societal and cultural norms. However what is commonly regarded as ‘exploitative’ can be used as a benchmark²⁶; though individuals may not necessarily agree or be aware of unjust terms and conditions. For example, there is consensus in the literature that credit from home credit companies is generally very expensive and disadvantageous for users (see for example, Kempson and Whyley, 1999a; Kempson and Whyley, 1999b; Leyshon et al., 2006; Rowlingson, 1994; Whyley and Brooker, 2004).

As discussed above, financial ex-/inclusion can be perceived as continuum. It forms one of the key aspect of, for example, Regan and Paxton’s (2003) understanding of the concept. They state:

Opening a bank account, whilst a positive step, does not move someone from being excluded to included. There is a spectrum of financial inclusion (Regan and Paxton, 2003: 5).

According to the European Commission (2008a), *full* inclusion, then, can only be achieved when individuals are appropriately served by mainstream financial

²⁶ The Office of Fair Trading (OFT), for example, set guidelines for the non-status lending market, including that lenders should ‘not engage in unfair business practices’, including charging very high rates of interest, and that ‘there should be responsible lending, with (...) a proper assessment of the borrower’s ability to repay’ (OFT, 1997: 7, 8).

institutions. This is an important point since it highlights that different degrees of financial inclusion exists, with individuals being either more or less included. In addition, the European Commission highlights the role of *mainstream* financial institutions, such as banks, in promoting financial inclusion. This is also incorporated into the researcher's understanding of the concept. The financial mainstream to which the majority of people in society have access is intrinsic to promoting financial inclusion. This is not say that other financial service providers such as mutual organisations like credit unions do not have an important part to play and can bring financial inclusion forward. However, an ultimate goal of promoting financial inclusion should be that individuals are appropriately served by the financial mainstream; ultimately because, as Toporowski (1986) argues, a 'stratified financial system is (...) intrinsically unfair and regressive' (Toporowski, 1986: 68).

Similarly to social inclusion, financial inclusion is a multidimensional concept. Overall, four dimensions of financial inclusion are identified:

- Banking inclusion – allowing access to and being able to make effective use of bank accounts (e.g. effective use of direct debits);
- Credit inclusion – allowing access to and being able to make effective use of (mainstream) credit (e.g. meeting repayments);
- Saving inclusion – allowing access to and being able to actively use savings products (e.g. able to save regularly into a savings accounts); and
- Insurance inclusion – allowing access to appropriate home contents insurance products (e.g. affordable premiums, appropriate payment method).

These dimensions are based on people's basic financial needs; namely having transmission, protective and promotional services. Although it is acknowledged that a range of other financial products exist in each type of service (e.g. private pensions), the list above focuses on those that are central to the government's financial inclusion strategy, whose impact will be critically reviewed in the context of this research. The different dimensions are inter-related and reinforce each other. For example, a bank account can act as a 'passport' or 'gateway' to a range of other financial products and

services, including high-street credit, insurances and savings products (Devlin, 2005; Kempson, 1994; Kempson and Whyley, 1998, 1999b; Kempson et al., 2000; OFT, 1999b; Speak and Graham, 2000; Whyley et al., 1998).²⁷ Within each dimension of financial inclusion, different degrees of inclusion are identified. To understand the extent of inclusion, the following questions need to be asked:

- Do people have access to appropriate services?
- Are these services part of the financial mainstream?
- Do people make effective use of available services?

Only if all questions are answered positively, *full* financial inclusion is achieved. In terms of banking, for instance, a first step to improving financial inclusion may be helping people to gain access to basic banking products. In a next step it needs to be clarified whether banking services are appropriate to people's needs and how they make use of available services. Overall, full financial inclusion can only be achieved if a wide range of financial products exists to suit individuals' needs and circumstances. On the other hand, is it necessary to recognise the need for consumers to make effective use of financial products.

Regan and Paxton's definition does not differentiate between those who lack access to financial services by choice and those who are in some way forcibly excluded. However, to make this distinction is important since it recognises individual preferences and choice as outlined above. Although all choices that individuals make are to some extent constrained, with regards to financial services, people should be able to make informed decisions and choose from a wide range of appropriate financial products and services, as the definition of financial inclusion used in this study acknowledges. Voluntary non-access to or use of financial products (i.e. self-exclusion) then need to be distinguished from cases where people's application for financial products is rejected outright by financial service providers, where they act upon a narrow opportunity set or make ill-informed decisions.

²⁷ As research suggests this also applies to holding a basic bank account (BMRB Social Research, 2006).

Overall, the definition of financial inclusion used in the context of the thesis follows closely conceptualisations in the literature, but demonstrates some significant differences to most; namely the consideration of individual agency or choice and the emphasis on accessing and using *mainstream* financial services. The working definition makes a clear differentiation between factors that influence financial inclusion, such as financial capability, and the phenomenon itself, which is not always clearly separated by others.

2.4 Conclusion

This chapter highlighted the historic development of the concepts of poverty, and social and financial exclusion. There are significant differences between the traditional understanding of poverty in terms of lack of material resources and that of social exclusion, which is a dynamic concept that describes a wide range of processes that make participation in activities in society difficult or impossible. As such the concept is clearly related to the tradition of Peter Townsend who defines poverty in terms of multiple deprivation. However, the social exclusion dimensions are given a broader scope and the concept allows researchers to explore processes which have not been brought up before.

Being excluded from service provision, including financial services, has become increasingly recognised to be one of the processes that leads to social exclusion. Many of the key aspects of social exclusion do apply to the exclusion from financial services. More specifically, financial exclusion is identified as a multidimensional concept: people are excluded from a range of financial services that fulfil the financial needs of individuals and are necessary for participation in society; it also needs to be defined in relation to the needs of people, which can vary from individual to individual. Social exclusion is about participation in the larger society; similarly, financial exclusion can be understood in terms of non-participation in the mainstream financial system with regard to accessing and using certain financial services.

Like social ex-/inclusion, financial ex-/inclusion is perceived by some authors as a continuum, with people experiencing more or less ex-/inclusion over time. Furthermore, exclusion from financial services is not only a problem of a minority. It can affect everybody in society in some form or another and for various reasons. It is therefore not

a homogenous group of people that experience exclusion over time. The types of people that are most likely to experience financial exclusion and the processes that lead to exclusion will be explored in detail in the following chapter. Moreover, the concept of financial exclusion will be discussed in terms of scale and its consequences on the individual and collective level. For this purpose, the range of financial exclusion (academic) literature and other sources will be reviewed.

Chapter 3 - The Existing Evidence on Financial Exclusion

The previous chapter focussed on the development of financial exclusion as a theoretical concept and highlighted its links with social exclusion. This chapter sets the wider empirical context of this research and looks at the phenomenon more closely. Chapter 3 is separated into three main sections. These will, in turn, highlight the macro-economical, societal and individual processes that lead to exclusion, discuss evidence of the extent of exclusion in the UK and, in the final part, review existing research on the relationship between financial exclusion and the wider dynamic processes of social exclusion.²⁸

3.1 Explaining Financial Exclusion

3.1.1 Geographic Exclusion

One of the significant processes that is mentioned in relation to financial exclusion is the geographic withdrawal of mainstream financial institutions from predominantly deprived areas. This process, which is labelled as ‘retrenchment’ (Leyshon and Thrift, 1993), is amongst the earliest processes that are described in terms of financial exclusion, with Leyshon and his colleague(s) being amongst its most prominent proponents.

Leyshon and Thrift (1993, 1995) note that after a decade of rapid growth of the financial service industry in Britain, which saw a general widening and deepening of financial services, particularly of mortgages and credit, the 1990s witnessed the beginning of a process of ‘retrenchment of financial services firms’ in response to the recession of the late 1980s/early 1990s, the growing problem of high levels of borrowing and high operating costs. This process of retrenchment or ‘restructuring for profit’ of the banking industry is characterised by both a ‘flight to quality’ (‘social distancing’) and the withdrawal of financial infrastructure from isolated, suburban housing estates and poor inner city areas as part of an ongoing process of searching for ‘safe’ markets (‘physical distancing’), as is suggested by Leyshon and his colleagues and a range of other authors

²⁸ In general, literature till mid-2008 will be considered. The effects of the economic downturn in the early noughties is not the context of this research; hence not discussed here.

(Conaty, 1993; Kempson, 1994; Kuar and Mayo, 1997; Leyshon et al., 2008; Leyshon and Thrift, 1997). This was supported by wider social and demographic changes, such as the growing numbers of single parent households²⁹ and growing home ownership, which resulted in ‘pockets’ of high concentration of socially and economically disadvantaged individuals since those who cannot access mortgages and live in social rented housing are concentrated in some areas, as Kempson and her colleagues suggest (Kempson et al., 2000: 13-14). A similar process of geographic exclusion was observed for rural areas, reflecting the costs of operating a branch network in areas of low density of population (Gentle and Marshall, 1992).

Various research provides evidence of this process of geographic withdrawal of mainstream financial institutions. Between 1982 and 1992, 17% of bank branches in Britain were closed. In the late 1990s, after a period of expansion, building societies too began to close down a considerable number of their branches (Leyshon and Thrift, 1997); though to a lesser extent than banks with, overall, fewer branch closures (Kempson et al., 2000) and fewer closures in socially deprived areas (Marshall et al., 1999). The continuous process of decline is confirmed by recent research. French et al. (2008) note that the number of banks and building society branches declined by about one-third between 1989 and 2003. However, rather than a new phenomenon, processes of unequal geographic withdrawal are based on general patterns of branch distribution that had always showed signs of ‘banking service “deprivation”’ within rural areas, council estates and other disadvantaged areas (NCC, 1983). This is also suggested by Leyshon et al. (2004). This unequal distribution of branches and continuing closures of bank and building society branches in predominantly deprived and rural areas results in spaces of ‘financial desertification’ (Thrift and Leyshon, 1997) and ‘islands of exclusion where financial service for poor households are virtually non-existent’ (Rossiter and Kenway, 1997: 7). As a consequences it make access to financial services extremely difficult if not impossible in these areas. In contrast, Kempson and Jones’ (2000) study shows that vulnerable people do not necessarily have more limited access to bank or building society branches than other social groups. Nevertheless, their study also suggests that geographic access can create difficulty in accessing financial services for

²⁹ Between 1991 and 1998, the proportion of all households with children headed by a lone parent rose from 18% to 26% (Levitas, 2006: 405).

some individuals. This is true particularly for very elderly, single parents with young children and those with mobility issues due to illness or disability (Kempson and Jones, 2000).

Consequences for individuals: There is wide consensus that this spatial dimension of financial exclusion constitutes a significant problem for residents of urban deprived and rural areas; particularly since low levels of car ownership, combined with an expensive and often unreliable public transport system and fewer opportunities for accessing financial services online or by telephone³⁰, add to people's difficulty in dealing with the consequences of geographic exclusion (Thrift and Leyshon, 1997). This can have particular implications for the elderly, those with young children and those with disabilities, to the extent that people suspend or close down accounts³¹ (Kempson and Jones, 2000) or do not open an account in the first place (Kempson and Whyley, 1998). This is also confirmed by qualitative research conducted by Speak and Graham (2000) who found that people turn away from banking service because they find them physically difficult to access (Speak and Graham, 2000). It can further undermine autonomy since they need since they rely on someone else to do their banking (Kempson and Jones, 2000). Ultimately, banking without local branches is more time-consuming and costly since it involves lengthy journeys and use of relatively expensive public transport (*ibid.*). It also means that people miss the opportunity of personal contact with what is an important institution in modern society, contributing to alienation from the banking sector and thus processes of financial exclusion.

In contrast, the British Bankers' Association (BBA) questions the need for local bank branches when cash machines are widely available in remote and deprived areas and when people largely use banking services for cash withdrawal (BBA, 2000). The objection of the BBA seems to be justified since modern society is increasingly a cashless society which makes the use of local bank branches more and more unnecessary. In fact, research suggests that the majority of people who do not normally use a bank branch employ alternative ways of withdrawing money and paying bills (Kempson and Jones, 2000). However, the same study shows that some of them would

³⁰ Those on the lowest incomes are least likely to have internet access or access to private transport (DWP, 2005).

³¹ Three per cent had stopped using an account entirely (Kempson and Jones, 2000).

prefer to pay bills at a branch, but find it too difficult to reach one. Similarly, there are some groups of people that are less likely to use cash machines than others, particularly elderly people and those with a disability (Kempson et al., 2004a; Kempson and Jones, 2000; Kempson and Whyley, 2001). Therefore, for these social groups it is necessary that they have easy access to bank branches or access to alternative means of banking which supersede the use of local branches. Moreover, the lack of local branches needs to be understood against the background of processes of psychological distancing on the side of certain consumers. Ultimately, against the assumption of the BBA, research demonstrates that cash machines are no longer widely available in remote and deprived areas. Evidence provided by the Citizens Advice Bureaux (CABx) suggests that there has been a decline or ‘desertification’ of non-fee charging cash machines since the late 1990s/2000s, particularly in rural and urban deprived areas (Hopwood Road, 2006). In 2006, over 40% of cash machines charged a fee (Hopwood Road, 2006: 2). Although the average fee was only £1.50 for each transaction, this nevertheless makes withdrawing cash more costly for low-income consumers since they tend to take out only small amounts each time but withdraw money more frequently, as Hopwood Road’s research, for example, points out. Overall, the evidence suggests that living distant from bank branches or geographic exclusion can bring about financial exclusion under some circumstances. It also has consequence for area regeneration as is explored below.

Consequences for area regeneration: Processes of retrenchment are associated with area de-regeneration. In particular they are linked to the decline of local enterprise and trade since the withdrawal of private service sectors, including banking services, is partly undermining area regeneration because residents do their banking and shopping elsewhere (Lynch and Haidar, 1998; Speak and Graham, 2000). Ultimately, the loss of local knowledge of an area and its customers (Marshall et al., 1999; Palmer and Conaty, 2002; Rogaly, 1999; Sinclair, 2001) and the reliance of financial institutions on “at-a-distance” methods of assessing the riskiness of consumers (Leyshon et al., 1998: 29) can fuel negative perceptions about certain areas and result in further social and economic decline (Kempson et al., 2000). In fact, research carried out by Kempson and Jones (2000) in Britain suggests that although the great majority of small businesses and other organisations that were affected by branch closure were not concerned about the effects on their business, some concerns were voiced about the loss of customers as, without a bank branch in their local community, these tend to ‘pass by’ the

neighbourhood. Difficulty with accessing mainstream financial services for people living in these area can be one consequence of these negative views. However, evidence of a relationship between the withdrawal of mainstream financial services from certain areas and negative consequences for their economic growth largely stems from the US, with little research having been conducted in the UK. In any case, the relationship between geographic exclusion and neighbourhood decline is more complex than a simple no-bank-decline-of-area causality. In this context, branch closures can partly reflect incipient area decline and in turn contribute to this process.

Overall, while geographic exclusion or having limited access to bank or building society branches do not adversely affect the majority of the population, it constitutes a problem for some social groups. This also applies to processes of social distancing, which are discussed below.

3.1.2 Social Distancing of Banks

As pointed out above, the process of retrenchment of the financial services sector is also characterised by a ‘flight to quality’ and the development of new, exclusionary ‘premium’ financial products, targeted at upper market customers (Leyshon and Thrift, 1993). This happened alongside further developments, which created a mass market of generic, transparent and lower-cost financial products in the 1990s (Leyshon et al., 1998) and the development of ‘safer’, less riskier products (Leyshon and Thrift, 1995), hence indirectly discriminating against lower-income and higher-risk customers by offering them generic, lower-cost financial products. This is described by Toporowski in relation to banking:

Traditionally the less well-off have been excluded from the clearing bank system in the United Kingdom (...) Nowadays, ‘down-market’ customers are discouraged informally by restricting their access to banking services, and formally by limiting the range of services to which they are entitled (Toporowski, 1986: 59).

Thus rather than completely excluding certain customers from the financial system, these developments resulted in a two-tier financial system. Exclusion, then, can be more subtle than outright refusal through denying or withdrawing more sophisticated banking features such as a cheque book or debit card (Kempson, 1994; Kempson and Whyley, 1998); thereby creating a hierarchy of banking services, with highly advanced banking

services at the one end and products with very limited functionality at the other. This is also evident in respect of credit. Here, two distinct markets for credit are identified, with the 'up-market' being rarely used by low-income consumers, who form the main customer base of the 'down-market' (Berthoud and Kempson, 1992). Consequently, some consumers have never been part of upper market financial service provision. As will be discussed later, it is also acknowledged in the literature that some social groups *prefer* not to participate in the financial system and for this reason largely operate outside the financial mainstream.

Processes of social distancing are supported by new information technologies, which enable financial service providers to acquire more precise information about potential customers and thus to improve the target marketing of products more precisely and improve risk assessment (e.g. credit scoring) (Berthoud and Kempson, 1992; Kempson et al., 2000; Leyshon et al., 1998; OFT, 1999b; Rogaly, 1999). While this has resulted in greater market efficiency and increased access to suitable products for many people, the loss of local contact with customers through an extensive branch network and the resulting loss of trust between bank staff and customers mean that certain social groups find it increasingly difficult to access financial products. As a result, 'microgeographies of "good" and "bad" areas' and customers are created (Leyshon et al., 1998: 40). In contrast, other authors note the possible discriminatory effect of 'relationship banking ('urban gatekeepers') (see for example, Boddy, 1980). Nevertheless, it is particularly those living on low incomes or in high-crime and deprived areas which are considered as too high a risk that are affected by this 'strategy of risk-avoidance' of banks and insurance companies (Leyshon and Thrift, 1995: 313). The result is an extreme inclusion of 'more privileged and affluent social groups (...) [who] are able to pick and choose from a greater range of potentially beneficial financial products than ever before', while those at the lower end of the market are increasingly left behind in terms of gaining access to the financial system (Leyshon and Thrift, 1996: 1150-1151). Furthermore, many of those who were previously included in the financial system during the 1980s found themselves on the 'outside' in the 1990s, either by direct exclusion by banks or self-exclusion (Leyshon and Thrift, 1997). Indeed, research shows that about a third of the households without a current account had one in the past, but suspended it (Kempson and Whyley, 1998).

The exclusionary processes described above are supported by a number of social changes that took place during the 1980s and early 1990s, including the fastly widening gap between low and high incomes and the growth of the flexible, insecure labour market, such as the rise in part-time work, self-employment and temporary employment contracts (Dickens and McKnight, 2008; Kempson et al., 2000). Moreover, the late 1970s had seen an increase in the number of households where no household member of working age is in paid work. From the late 1970s onwards the number of adults under 60 living in workless households had more than doubled: from 4.1 million (eight per cent) in 1979 to 9.4 million (17%) in 1993/94 (Pile and O'Donnell, 1997: 32). These changes represented a downturn for many people whose economic and social position had become less secure and stable, and stood in significant contrast to the up-market movement of the financial services industry. Those living on low incomes or being in insecure, flexible employment are less likely, for instance, to score high on the credit rating of bank and will find it more difficult to access mainstream credit or other financial products as a result.

The insurance industry: A similar process of social distancing or 'flight to quality' is identified in the insurance industry. It is argued that insurers are increasingly engaged in 'more careful risk-pricing' (Leyshon and Thrift, 1993: 238), which discriminates against higher-risk groups, for instance those living in high-crime areas (Fisher et al., 1999). The now common practice in the insurance industry to assess risk by the full postcode, down to individual streets, is used as an example of the exclusionary processes of the industry. With this method, insurance providers are able to precisely detect areas of 'higher risk' within certain localities, which can result in 'no-go investment localities' (Rogaly, 1999: 28). Although not denying access to insurance products *per se*, the costs of insurance increase because of the classification of these areas as 'higher-risk' by the insurance industry. As a consequence, "[t]hose most in need for insurance³² and least able to self-insure are likely to be those least able to afford highly differentiated premiums' (Burchardt and Hills, 1998: 5). Therefore, while there is little evidence of the 'red-lining' of entire neighbourhoods by insurance

³² Households without home contents insurance cover are more likely to suffer a burglary than insured households (see for example, Palmer et al., 2007).

companies in Britain³³ (Kempson et al., 2000; Kenway, 2007; Whyley et al., 1998) and direct exclusion by insurance providers where people are refused access to home contents insurance, high insurance premiums or conditions attached by insurers such as the requirement of a minimum standard of security discriminate *indirectly* against people living in disadvantaged areas (Whyley et al., 1998). In addition to the higher costs of insurance products, the discriminatory approach of insurance providers has psychological consequences. According to Whyley and her colleagues (1998), it can fuel perceptions amongst tenants and residents of less affluent areas that they will not get insured; thereby encouraging self-exclusion. Psychological barriers like this are important in explaining financial exclusion. This will be discussed in detail later.

3.1.3 Information and Marketing Exclusion

The process of spatial withdrawal of mainstream financial institutions is reflected by a process of ‘information exclusion and isolation’ of areas where less affluent customers are concentrated (Thrift and Leyshon, 1997: 13). This results in ‘a clear divide in information provision for different types of customers’ (Kempson et al., 2000: 18): those included in the financial system become more informed in financial terms and well-educated which enable them to make informed financial decisions, while those left outside become more distanced from the ‘financial sphere’ (Thrift and Leyshon, 1997: 13). As Leyshon and his colleagues (1998) suggest:

(...) more affluent social groups are experiencing a process of ‘superinclusion’. Their money power results in them being offered higher levels of information and more service provision (...) However, the corollary of this process of inclusion is that poorer people are increasingly subject to financial exclusion because they do not display the database characteristics required by producers or the knowledge increasingly demanded of consumers (Leyshon et al., 1998: 47).

This is confirmed by the Office of Fair Trading’s (OFT) (1999) Consumer Survey. The OFT finds that unbanked people received significantly fewer marketing materials on a lower average number of products than those with (active or inactive) accounts (OFT,

³³ This seems to be a greater problem in the US where, for instance, the ethnic composition of urban neighbourhoods has a significant impact on whether insurance is available and to what conditions (Whyley et al., 1998).

1999a). This is also suggested for other financial services such home contents insurance, with marketing rarely being aimed at low-income households (Whyley et al., 1998). As a consequence, financially excluded people find it even more difficult to become included in the financial system since they do not know what services are available or how to access them. According to Leyshon and his colleagues (1998), they are ‘doubly handicapped as they live in both a financial and an information shadow’ (Leyshon et al., 1998: 29). In addition, similar to geographic exclusion and social distancing, lack of information about financial products is likely to further increase psychological barriers and encourage the view of residents that certain financial services are not available to them (Kempson and Whyley, 1999b). In this context, Leyshon and his colleagues (2004) identify two ‘distinctive *ecologies* of financial service production and use’ (Leyshon et al., 2004: 625, original emphases). While affluent middle-class areas display relatively high levels of financial service use and formal knowledge of the financial system, this is reversed in poor inner-city areas and isolated housing estates (Leyshon et al., 2004). In addition, the population has become increasingly polarised with respect to accessing the ‘electronic economy’ as Pahl (1999) argues. In this context, those on low incomes, with a poor credit rating (‘credit poor’), not in employment, in low-paid work or retired (‘work poor’) and a lack of understanding of the ‘new’ financial system (‘information poor’) are least likely to participate in the cashless society (e.g. credit cards, internet and telephone banking) (Pahl, 1999). This is fuelled by lower levels of access to the internet among this group. Therefore, while these new developments, particularly internet and telephone banking mean that money can be accessed without physical contact with the banking branch network, people living in areas most likely to be affected by geographic exclusion are least likely to take advantage of these changes in the financial world. In this context, new entrants, such as mobile phone banking, may offer alternative means of becoming engaged in the financial system.

Although the role of financial institutions in distributing information is crucial in explaining information exclusion amongst some consumers, customers also play an active role in this process. Formal knowledge about financial products and services may not be of relevance in the decision-making process of consumers to select certain products. Rather decisions may be influenced by other aspects such as preferences and routines. This will be discussed in the context of the use of the sub-prime credit market.

3.1.4 Use of the Sub-prime Credit Market

The previous section has discussed the exclusionary procedures of the mainstream financial market effected by offering fewer financial products, products with limited features and in general less promotional material and information about the products they offer. As a consequence, it is argued that affected customers ‘have to look outside the formal “market-regulated” financial system to satisfy their financial-services needs’ (Leyshon and Thrift, 1997: 237); to what is known as the non-status or sub-prime³⁴ finance market. This applies particularly to consumer credit. The market is generally seen as serving the needs of two distinct groups; namely those who cannot gain access to mainstream financial products because of an impaired or low credit history, but who would be able to repay mainstream credit, and those on low incomes (Kempson et al., 2000). It is the market which serves the latter group, and which is broadly referred to as ‘sub-prime’, this research concentrates on.³⁵

Evidence of a direct relationship between processes of geographic exclusion and the prevalence of sub-prime lending in deprived areas is rare. There are a number of studies that note a decline in the use of home credit over the 1980s when the mainstream financial market became more inclusive (cited in Ford and Rowlingson, 1996). By 1989, it was estimated that only about 500,000 households had active credit commitments with doorstep lenders, which offer small-scale loans at higher prices than the financial mainstream (Berthoud and Kempson, 1992); though it is suggested in the literature that the extent of home credit use was probably underestimated at the time (Ford, 1991). In turn, research suggests a revival of pawnbrokers, which offer small cash loans secured on property, and the emergence of new entrants during the economic downturn in the early 1990s because of bank branch closures and restricted access to credit for some people (Collard and Kempson, 2003; Kempson and Whyley, 1999a).

³⁴ Although the term ‘sub-prime’ is often used, a clear definition is missing in the literature. Often it is understood in terms of the social groups that the market targets (particularly people on low incomes) (Collard and Kempson, 2003; Kempson et al., 1994; Kempson et al., 2000; Palmer and Conaty, 2002). In agreement with other sources, the Oxford English Dictionary states that the term ‘sub-prime’ is generally used to refer to a credit agreement under ‘relatively unfavourable terms, made to a borrower who does not qualify for other loans because of a poor credit history or other circumstances’ (Oxford English Dictionary Online, 2008). In contrast, mainstream credit is usually understood to be provided by a high-street bank, building society or larger finance house (Datamonitor, 2003).

³⁵ Please refer to Appendix A for an overview of this market.

Similarly to banks, home credit companies use mechanisms to reduce risk, including lending to people in employment, use of personal contacts to recruit new customers, use of local knowledge and personal relationships (see for example, Leyshon et al., 2006; Rowlingson, 1994). Overall, moneylenders are reluctant to take on people on very low incomes as they constitute too great a risk (Rowlingson, 1994). Groups that face restricted access to licensed moneylenders include the long-term unemployed, hostel dwellers, single parents, pensioners³⁶ and people living in high-rise estates and high-crime areas (Burrows, 1999; Kempson and Whyley, 1999a; Leyshon et al., 2004; Rowlingson, 1994; Speak and Graham, 2000; Whyley and Brooker, 2004). The linkage between lack of access to mainstream credit and the use of sub-prime credit and illegal lenders is confirmed by recent research on the illegal credit market in the UK (Ellison et al., 2006). Ellison et al. (2006) find that users of illegal lenders seem to be those unable to access credit from home credit lenders because areas are not served by them, customers have defaulted on or reached the credit limit, or are too high a risk even for the high-cost lenders. This suggests a direct link between the use of illegal lenders on the one hand and non-access to sub-prime alternatives on the other. It can also be assumed that these people are likely to be unable to access mainstream credit since customers of illegal lenders appear to be markedly more financially excluded than other residents of deprived areas, as Ellison and associates (2006) report.

Not only lack of access to mainstream credit, but also the government's own credit option for people on (qualifying) benefits – the Social Fund – can contribute to sub-prime borrowing. Being rejected by the Social Fund is found to have significant consequences for people's borrowing behaviour (Barton, 2002; Kempson et al., 2002; NCC, 2005a; Whyley et al., 2000). As Whyley et al. (2000), for example, point out the Social Fund may be the only source of credit for applicants apart from more expensive sources, with coverage of alternative sources of credit such as through credit unions being relatively patchy (see for example, Byrne et al., 2005; Jones and Barnes, 2004). While the majority of people who are unsuccessful with their application to the Fund go without, the National Consumer Council (NCC) (2005a) suggests that one in four use

³⁶ However, there is evidence that moneylenders continue to serve people even if their circumstances change for the worse (Rowlingson, 1994).

high-cost lenders. It is therefore an issue of great significance for financial inclusion policies.

However, the relationship between non-access to cheaper alternatives and the use of the sub-prime market or illegale lenders is likely to be less straightforward than proposed. Firstly, sub-prime lending is not a recent phenomenon. While new forms of sub-prime lending emerged during the 1990s, partly as a consequence of changes in financial legislation³⁷ and possibly the 1990s recession, other forms of sub-prime lending, particularly doorstep lenders and pawnbrokers, have a long-standing tradition in serving disadvantaged neighbourhoods. In fact, doorstep lending or home credit is one of the oldest forms of money lending in the UK. As early as the mid-19th century home credit companies were set up to offer credit to the vast majority of the population who were excluded by mainstream financial institutions (Palmer and Conaty, 2002). Provident Financial (or 'Provvvy' as it is commonly known to home credit customers), in this respect, is the largest of the home credit providers in the UK (Ellison et al., 2006), holding 60% of the market (Strelitz and Kober, 2007).³⁸ Similarly, pawnbrokers had served working-class communities since the mid-19th century (Tebbutt, 1983). Although pawnbrokers and doorstep lenders have significantly declined in number since then, they have never perished, as Ford (1988), for example, points out. Secondly, users' preferences play a role in explaining use of the sub-prime market. It is not only due to an apparent lack of mainstream alternatives, but low-income consumers use this market because they prefer certain elements of its product design and delivery. This is discussed later. Ultimately, the utilisation of the sub-prime and mainstream market is not as clear-cut as sometimes proposed in the literature. It will be shown later that some users of sub-prime credit also utilise the mainstream credit market and that sub-prime credit users are not necessarily directly refused mainstream credit. Nevertheless, once having started to use sub-prime credit, there are a number of factors which can make it more difficult for people to stop using this source of credit; thereby reinforcing

³⁷ For example cheque cashers have commenced business as a consequence of the Cheques Act 1994, which resulted in all cheques being issued to the recipient only (Kempson and Whyley, 1999a). Cheque cashing facilities, then, are vital for those with no bank accounts since these enable recipients to cash cheques.

³⁸ Overall, the home credit industry is a big market, with benefit recipients borrowing an estimated 330 million pounds a year and interest payments alone amounting to an estimated 140 million pounds (NCC, 2005a).

processes of financial exclusion. This includes the lending practices of some lenders, the use of agents and personal contact which can be manipulative, lack of knowledge of (cheaper) alternatives and traditions. These factors are all reviewed later.

3.1.5 Mistrust of Banks

The research presented above focusses on access exclusion, characterised by geographic withdrawal of mainstream financial institutions from predominantly deprived areas and the social distancing from a primarily disadvantaged customer base. Alongside issues of access, the processes described above can influence people's perceptions about mainstream financial service providers. This is for example pointed out by research carried out by Kempson and Whyley (1999b). They note that living at distance from branches may not directly prevent people from opening an account, but the geographic distance of financial service providers can create a psychological barriers since people feel that financial services 'are not for them' (Kempson and Whyley, 1999b: 21) and (often rightly assume) that banks are reluctant to do business with them (Kempson et al., 2004a: 40). Kempson et al. (2000) and others (Collard et al., 2001; Leyshon et al., 1998; Regan and Paxton, 2003; Speak and Graham, 2000; Whyley et al., 1998) observe that these feelings of mistrust of mainstream financial institutions are widespread among people who are largely excluded from the financial system. As Kempson et al. (2000) state:

A lack of appropriate financial products and restricted access have fuelled a mistrust of financial service companies and created a belief that they have no interest in meeting the needs of people on low incomes (Kempson et al., 2000: 87).

This is not a new notion. Already in 1986, Toporowski noted that the 'august air of mystery' that surrounds banks for those outside the financial system can constitute a significant disincentive for these people to use banks and banking services since banks are seen (often rightly) as serving the upper classes (Toporowski, 1986). Similarly, an early study by the NCC found that those in the lower socio-economic classes often feel that banks and banking are daunting and frightening, while building societies are generally perceived as more friendly and less intimidating (NCC, 1983). Feelings of mistrust do not necessarily need to be based on actual individual experience but can be fuelled by the experience of friends, family or neighbours or negative media coverage of mainstream financial service provision (Kempson et al., 2000; Whyley and Brooker,

2004). Second-hand experience, in this context, can be as powerful as the experiences of consumers themselves. In addition, these feelings are embedded in overall negative perceptions of financial institutions in deprived communities, as Collard and her colleagues (2001), for example, note. As such, these feelings of mistrust might be hard to overcome.

Mistrust of banks is one of the factors which explains why individuals might not want to access or use mainstream financial products. This puts exclusion from the financial system into a different light since it suggests that some consumers prefer not to be included for one reason or another. This issue is discussed further below.

3.1.6 Preference and Choice

The question whether people are excluded by financial institutions (through product design, availability of products etc) or opt out of the financial system by apparent choice (e.g. because services are not appropriate) has been raised in the literature before financial exclusion had appeared as a phenomenon (see for example, Berthoud and Kempson, 1992; Toporowski, 1986). These discussions suggest that barriers on the side of both consumers and financial institutions are important in explaining financial exclusion. One important aspect of self-exclusion is the preference of non-mainstream financial services, which is at length discussed in Ford and Rowlingson's (1996) study about the use of the sub-prime credit market.

Credit: Based on earlier studies about (sub-prime) credit use of low-income households (see for example, Kempson et al., 1994; Rowlingson, 1994), Ford and Rowlingson (1996) draw a more differentiated picture of sub-prime credit use than has been previously the case. Although many users of sub-prime credit use this source because they have been denied other types of credit or do not apply because they think they will be refused other credit options, this is only part of the story. In fact, some research found little evidence of low-income families having their application for credit turned down (Kempson et al., 1994). According to Ford and Rowlingson, some users of sub-prime lenders may have other types of credit available to them and, in fact, use other sources, including mainstream credit, but nevertheless choose to borrow from sub-prime lenders (as well) (Ford and Rowlingson, 1996). This is supported by other research which suggests many overlaps between home credit use and other types of credit (Collard and Kempson, 2003; Jones, 2001; Kempson and Whyley, 1999b; Rowlingson,

1994; Whyley and Brooker, 2004). Although overlaps with mainstream credit are more limited in comparison to other types of sub-prime credit, particularly catalogues, some customers nevertheless have access to mainstream credit, including credit cards and overdrafts (Whyley and Brooker, 2004). Rather than being treated as substitutes for home credit, these other sources of credit - both mainstream and sub-prime credit sources - are used as a way of broadening consumers' overall access to credit, often with different purposes attached to different types of credit (Collard and Kempson, 2003; Ford and Rowlingson, 1996; Jones, 2001; Kempson et al., 1994; Kempson and Whyley, 1999a; Kempson and Whyley, 1999b; Rowlingson, 1994; Whyley and Brooker, 2004). For example, some people use of pawnbroker to cover daily living expenses and borrow from moneylenders for special occasions like Christmas (Collard and Kempson, 2003). People are therefore making choices between the different types of credit options available; though choices are likely to be restricted. For example, research suggests that sub-prime credit users may have exhausted other (mainstream) credit options before using sub-prime credit (Kempson and Whyley, 1999a). Other factors such as lack of information also explain non-mainstream credit use, as discussed above. Overall, choices are not only based on people's (material) resources, but also on their 'values, beliefs and tastes' (i.e. preferences) (Le Grand, 1991: 93). The latter is explained below.

The home credit industry offers a unique service that meets the needs of low-income consumers in several ways, including quick, informal and easy access to small sums of cash/credit and weekly, informal and often flexible repayments (see for example, Ford and Rowlingson, 1996; Kempson, 2003; Kempson and Whyley, 1999a; Kempson et al., 2000; Rowlingson, 1994; Whyley and Brooker, 2004). The same is true for other sub-prime credit sources (Collard and Kempson, 2003; Dominy and Kempson, 2003a; Kempson et al., 1994). In addition, low-income consumers prefer the familiarity of dealing with an agent (Kempson, 1994), who is often based locally and builds up a personal relationship with the customer. The latter stands in contrast to the increasing decline of 'relationship banking' but also intends to reduce the risk of default repayments and to retain customers (Ford and Rowlingson, 1996; Jones, 2001; Kempson and Whyley, 1999a; Leyshon et al., 2006; Rowlingson, 1994). In contrast, mainstream credit options are often not appropriate for low-income consumers, not least because of the imposition of relatively high minimum loans offered and relatively high

and inflexible repayments rates (Collard and Kempson, 2005; OFT, 1999b; Rowlingson, 1994).

Banking: The importance of choice is confirmed with respect to other financial products, in particular banking. Kempson's research especially gives a first comprehensive account of banking exclusion. Although acknowledging the importance of institutional barriers in determining access to bank accounts, she emphasises that some respondents chose not to open a current account because they did not need one as they were paid weekly, had low wages or were paid benefits through giro cheque or order book at the post office (Kempson, 1994). Moreover, Kempson (1994) notes, people decided not to use or to close down available accounts when circumstances change because of the anticipation or the experience of bank charges, such as charges for unpaid direct debits or an unauthorised overdraft. In addition, some people decide not access the range of banking facilities that would be available to them, such as a cheque book, in order to keep tight control over their money (Kempson and Whyley, 1998). Research frequently points to the fact that people living on low incomes generally prefer managing their finances weekly or fortnightly and in cash in order to keep tight control over their budget (see for example, Jones and Barnes, 2004; Kempson, 1994; Kempson et al., 1994; Kempson and Whyley, 1999b; OFT, 1999b; Whyley et al., 1997). Therefore, monthly direct debits do not meet the needs of many people living on low incomes since they prefer a weekly, rather than a monthly budgeting cycle. An account-based money management is therefore more likely to be accepted by consumers if it allows a similar level of control and flexibility than handling finances in cash. Overall, these data suggest that people might not want to use banking services when they have limited facilities to choose from and can incur charges for going overdrawn or missed payments. At the other extreme, people might close down or not apply for an account if they feel that they do not need it. Therefore choice, though often constrained by other factors, is important in fully understanding banking exclusion.

Ford and Rowlingson's research on sub-prime credit use and Kempson's work on bank account holding is important as they brought a new dimension into the debate about financial exclusion at the time: it is not only banks that are proactively involved in exclusionary processes; consumers themselves actively influence that process by choosing the services that best meet their needs and by suspending or closing down

inappropriate services. Therefore, financial exclusion is more multi-faceted and complex than simply a case of outright refusal by banks or geographic exclusion. In addition, this research initiated a shift in focus from ‘what it is households are denied’ to ‘what it is that is available to them’ (Ford and Rowlingson, 1996: 1348) and needed; hence from a supply-side to a demand-side perspective. This is taken on to a much greater extent by subsequent research which will be discussed later.

The role of social networks: Meadows et al. (2004) and other authors (see for example, Jones and Barnes, 2004) highlight the important role social networks play in influencing consumers’ use of financial services (i.e. non-use of mainstream sources, use of sub-prime lenders) in particular through the transmission of often inadequate and fragmentary information about the (mainstream) financial system; hence suggesting that not only mainstream financial institutions contribute to information exclusion. If people rely on these networks as their main source of information, the transmission of inadequate and fragmentary information can cause misconceptions about the financial mainstream and the products it offers. At the same time, social networks can help to build trust and familiarity with alternative financial providers, as Whyley and Brooker (2004), for example, suggest. In this context, using home credit among low-income families can become a ‘tradition’ (Byrne et al., 2007) or seen as ‘a way of life’ (Rowlingson, 1994), with new customers of home credit being often introduced to agents of home credit companies through family or friends, as several studies suggest (Byrne et al., 2007; Jones, 2001; Jones and Barnes, 2004; Kempson et al., 1994; Rowlingson, 1994; Whyley and Brooker, 2004). In this context, doorstep lending can be said to be part of a ‘women’s economy’, with daughters often being introduced to doorstep lenders by their mothers (Kempson et al., 1994) and the majority of both agents and customers being women (Rowlingson, 1994). It therefore can be carefully suggested that doorstep lending, and the use of other sub-prime lenders, forms one aspect of a ‘culture of poverty’ or ‘habitus’, as outlined in the previous chapter. In fact, Lewis mentions the use of informal credit devices because of refusal of credit by banks as one example of the culture of poverty (Lewis, 1966). However, it is too simplistic to assume that traditions and routines are the only decisive factors. According to Ford and Rowlingson (1996):

cultural tradition, custom, and practice govern the use of financial resources, as well as evidence of strategic decision-making by households as to which institutions provide them with the services they require and in a form which best enables them to enhance their control and management of their resources (Ford and Rowlingson, 1996: 1347).

It is an important point the two authors make here about choice: individuals' behaviour in relation to using financial services is influenced by assumed behaviours as well as individual preferences, which are based, for example, on the product that is on offer or type of product delivery and influenced by social networks.

A wide range of financial exclusion processes have hitherto been discussed. These include institutional barriers such as geographic exclusion as well as individual barriers such as mistrust of banks and individuals' preferences. These are joint together in Kempson et al (2000) study, which is discussed in the following.

3.1.7 Joining it Together: Supply and Demand-side Barriers to Financial Inclusion

Kempson et al.'s (2000) literature and research review is seminal in joining together earlier research on financial exclusion, including the processes that lead to exclusion. The following financial exclusion processes are identified:

- Access exclusion – restriction of access through processes of geographic withdrawal and risk assessment, including credit scoring;
- Condition exclusion – the conditions attached to financial products make them inappropriate for the needs of some people, such as lack of transparency and flexibility;
- Price exclusion – the price of some financial products is unaffordable for some people, such as high insurance premiums;
- Marketing exclusion – some people are effectively excluded by targeting marketing and sales;
- Self-exclusion – people do not apply for a financial product because they believe they would be refused, either because of personal refusal in the past, or because someone they know was refused, or anticipated refusal should they apply (Kempson et al., 2000: 9).

Their research suggests that there is a close relationship between the different forms of financial exclusion processes. For example, poor credit scoring increases the price of financial products, which in turn means that financial products can become unaffordable for consumers (Kempson et al., 2000).

Rather than listing them as separate sets of barriers, Kempson and her colleagues identify further processes of financial exclusion in their report, including information exclusion through a lack of financial literacy, psychological barriers and mistrust of (mainstream) financial services providers, cultural and language barriers³⁹, and the impact of government policy and regulation (Kempson et al., 2000: 50-52). Financial exclusion is thus, in most cases not a result of direct exclusion from financial service provision, but rather emerges from processes of indirect discrimination against certain consumers, for instance through making financial products more expensive or less attractive to use. These barriers do not apply equally to all financial services (Kempson et al., 2000). For example, price exclusion plays a greater role in determining access to some financial products, such as insurances, rather than others, while lack of geographic access makes using financial products more difficult for some people. Overall, Kempson et al.'s research review presents an attempt to systematically disentangle the complex set of often overlapping barriers that lead to direct or indirect exclusion; in particular they emphasise the importance of psychological barriers and the concept of self-exclusion, which had previously, with some exceptions, attracted little attention. Their research, therefore, highlights demand-side factors⁴⁰ that act as barriers to engagement with the financial system compared to institutionally-led or supply-side barriers⁴¹. Kempson et al.'s categories 'condition and price exclusion', for example, suggest that some products may not be appropriate to particularly low-income consumers because of the price and conditions attached to some products. Examples are where a minimum amount is required to open certain savings accounts, home contents insurance premiums have to be paid by direct debit or where a minimum sum is

³⁹ The existence of cultural and language barriers in accessing and using financial services is acknowledged in a number of other studies (see for example, Ethnic Response, 1999; Herbert and Kempson, 1996; Kempson, 1998a; OFT, 1999a).

⁴⁰ These factors, in general, explain why consumers give up or do not want to use mainstream financial services.

⁴¹ These generally describe barriers created by financial institutions, for instance through product design or delivery.

required to be insured (Whyley et al., 1998). Therefore, financial exclusion is not so much an issue of the availability of products, rather it is a question of the ‘appropriateness and affordability’ of financial services (Sinclair, 2001: 48), which suggests a direct link to low income⁴². The real issue is hence, a ‘gap’ or ‘mismatch’ between the supply of appropriate products and the specific needs of those who are financially excluded (Gloukoviezoff, 2007; Kempson et al., 2000). The causes of exclusion can lie with the individual, the financial institutions or both.

Kempson et al.’s analysis of the dimensions of financial exclusion is useful since it represents the first systematic attempt to understand the complex processes and major barriers that might lead to exclusion from the financial mainstream. It also makes reference to the wider social processes that are underlying financial exclusion such as changes in the labour market. Moreover, Kempson et al.’s proposed dimensions of financial exclusion have been often cited in subsequent research. However, what is missing from the analysis is a finer distinction between those barriers which result in access difficulties and those that make it difficult for people to *use* financial products. One such a distinction is made in Gloukoviezoff’s (2007) research. This is useful since it further differentiates the degree of exclusion people experience. For example, people may have financial products, but do not use them or have ‘inappropriate’ access which means that they experience difficulties with using them, as Gloukoviezoff (2007) suggests. His study is part of a growing body of research that acknowledges the complex character of financial exclusion. Rather than being completely shut out from the financial system, a complex set of barriers can lead both to difficulties with access and/or use of financial products, and hence to direct (i.e. refusal of financial services) or indirect exclusion (i.e. self-exclusion); whereas some of these barriers are more difficult to overcome than others.

3.1.8 Summary

The first part of this chapter discussed institutional-led processes of financial exclusion, including geographic and social distancing of the financial system, and marketing and information exclusion. These processes lead to the direct exclusion of certain consumers

⁴² This is discussed in detail in Devlin’s (2005) study.

through a denial of financial services, but also to psychological barriers, which mean that people are less or unwilling to engage in the financial system. In addition, the development of 'safer', less riskier products indirectly discriminates against lower-income customers by offering them only generic financial services. These exclusionary processes are compounded by social processes, such as changes in the labour market. While the changes in the mainstream financial system were used to explain the exclusionary character of mainstream financial institutions and the increasing need for consumers to access financial services in the sub-prime market, Ford and Rowlingson's (1996) research initiated a different view of issues of financial exclusion, with consumers seen as active decision makers, rather than passive recipients of a exclusionary financial system. Moreover, early research by Kempson and Whyley on bank account ownership explains why some people may choose to self-exclude from the banking system. Overall, this suggests that processes of financial exclusion are more complex and cannot be explained by the exclusionary character of the financial system alone. The study of Kempson and her colleagues (2000), in this respect, is significant in compiling the different processes or dimensions of financial exclusion.

Alongside understanding the processes that lead to financial exclusion, research makes an attempt to capture the scale of the problem. This shall be discussed below.

3.2 The Scale of Financial Exclusion

There are several official data sources as well as independent studies that measure the scale of financial exclusion on the basis of a range of indicators. The extent of exclusion from financial services has been researched since at least the early 1980s, often in the context of studies about low-income families' financial management (see for example, Berthoud and Kempson, 1992; Ford, 1991; Kempson et al., 1994; NCC, 1983; Toporowski, 1986). It is largely in this context that interest in financial exclusion has developed. Although focussing on the issue of financial management, these studies also discuss the role of credit use as part of low-income households' money management and the use of other financial services such as bank accounts. In terms of banking, early studies made a clear link between individuals' socio-economic status and bank and building account ownership, with those on the 'lowest level of subsistence' being least likely to have an account (Toporowski, 1986). However it was not until the mid-1990s that a comprehensive study of access to banking products was published. Kempson's

1994 review *Outside the Banking System*, which is based on a re-analysis of data that were gathered in an earlier study of household finances by Berthoud and Kempson (Berthoud and Kempson, 1992) and additional in-depth interviews with low-income households, can be seen as one of the first studies to comprehensively examine data on the extent of access to banking services. This was followed by Kempson and Whyley's report *Access to Current Accounts* in 1998, based on data from the 1995/96 Family Resources Survey (FRS). These and other initial studies which examine the scale of financial exclusion are summarised in Table 3.1 below.

Table 3.1 Initial Research on the Scale of Financial Exclusion

Study	Type of study	Proportion of financial excluded individuals/households	Key characteristics of financially excluded individuals/households
Banking			
Kempson (1994)	Quantitative Data from Berthoud and Kempson, 1992 Qualitative 76 in-depth interviews with low-income families with children	<ul style="list-style-type: none"> - One in five (19%) of households did not have a current account - At least a third of the households without a current cheque account had been refused credit, including mainstream and sub-prime credit 	<ul style="list-style-type: none"> - Single parents households (52%) - Households headed by someone out of work (52%) - Non-pensioner households with income below £100 a week (49%) - Households claiming social security benefits, including housing benefit (60%), income support (58%) and unemployment benefit (54%) - Households renting from Council (47%) and the Northern Ireland Housing Executive (73%) - Households living in 'very run down area' (55%) - Households living in Scotland (29%) and Northern Ireland (31%)
Kempson and Whyley (1998)	Quantitative Data from the FRS 1995/96 and the Office of National Statistics (ONS) Omnibus module	<ul style="list-style-type: none"> - 10% to 15% households, depending on the source of data used, were without a current account; whereas individual account ownership ranges between 15% and 22% 	<ul style="list-style-type: none"> - Individuals from some minority ethnic groups (Bangladeshi and Pakistani communities) - The long-term unemployed - People living in rented accommodation - Recipients of means-tested benefits
Credit			
Berthoud and	Quantitative	<ul style="list-style-type: none"> - Two per cent of householders were denied 	<ul style="list-style-type: none"> - Worse-off households had few unused

Kempson (1992)	2,212 households in the UK Representative sample	<p>consumer credit during the preceding year, including credit cards, bank loans and HP</p> <ul style="list-style-type: none"> - 31% households used mail order catalogues - Three per cent had loan from check company⁴³ - Two per cent had loans from moneylenders⁴⁴ - Three per cent of households had taken out secured loans - 16% households over-committed themselves on credit 	<p>available credit facilities, were refused credit relatively often and turned to informal sources of credit such as family and friends</p> <ul style="list-style-type: none"> - Households with an income of up to £100 were most likely to use 'down-market' sources of credit, including borrowing from friends or relatives, check companies moneylenders and the Social Fund (58%) - A third of low-income households expected difficulty with repaying credit
Kempson (1997b cited in Kempson et al., 2000); Kempson and Whyley (1999a)	Quantitative Data from the OFT Vulnerable Consumers Survey Secondary data 13 interviews	<ul style="list-style-type: none"> - One per cent of the adult population had consumer credit secured on their property (non-status borrowing) - One to two per cent of the population use moneylenders - Around 50,000 use pawnbrokers - 19% of the adult population use agency mail order catalogues (about eight million people) 	<ul style="list-style-type: none"> - Low-income homeowners (non-status lenders) - Those living on long-term low incomes; - Tenants; - Families with dependent children - Borrow to make ends meet or pay bills - Experience of over-indebtedness
Savings			
Kempson (1998a, b)	Quantitative Data from the FRS 1995/96 Qualitative 126 in-depth interviews with low-income households	<ul style="list-style-type: none"> - About a third of low-income households did not save any money at all, nor did they put money aside for paying bills - One in six had formal savings products; most likely a savings account with a current or former building society - People who held formal savings products nevertheless made little use of these⁴⁵ - 50% used informal methods of saving⁴⁶ 	<ul style="list-style-type: none"> - Use of formal savings products most common among working households, albeit low-paid employment - Lower level of use of formal savings products among minority ethnic groups, particularly African Caribbeans, Pakistanis and Bangladeshis - Informal methods of saving were most common among workless households

⁴³ Offer cheques or vouchers which can be used for purchases at certain shops (Kempson et al., 1994).

⁴⁴ This includes loans from a doorstep lender or 'tallyman', loans from a pawnbroker, HP from a doorstep lender and loans from 'other' sources (Berthoud and Kempson, 1992: 85).

		- Around one in ten used both formal and informal ways of saving	(unemployed, sick or disabled, retired, single parent) - Households' ability to save varies with their economic circumstances and family composition. In addition, the purposes for which households save and the methods used vary ⁴⁷
Home contents insurance			
Whyley et al. (1998)	Quantitative Survey attached to the ONS Omnibus survey Qualitative 29 in-depth interviews with uninsured low-income households	- Two out of ten households were without a current home contents insurance policy	Among uninsured households: - Single householders (34%) - Single parents (22%) - White households (94%); though minority ethnic households were more likely to be uninsured than insured - Households headed by someone not in paid work (52%) - Households on lowest income (less than £100 a week) (40%) - Households living in metropolitan areas (44%) - Social and private tenants (80%)

⁴⁵ Only 21% of households had more than £100 saved in a savings account, whereas 10% were actively saving at the time the interviews were conducted (Kempson, 1998b: 13).

⁴⁶ This includes putting money away at home, buying savings stamps, over-paying prepayment meters, paying into Christmas savings clubs/hamper schemes, giving money to third party to look after or letting benefits or additional income mounting up (Kempson, 1998b). In contrast, formal saving refers to the process of adding money to formal savings products such as a savings account with a bank, building society or credit union (Kempson, 1998b).

⁴⁷ Kempson identifies three different saving concepts: 'putting into saving' (i.e. saving for no specific purpose, usually formally), 'saving up' (i.e. save for specific purpose, either formally or informally) and 'putting money by' (i.e. setting aside a certain amount each week to meet regular household commitments, usually informally) (Kempson, 1998b).

Overall levels of financial exclusion			
Kempson and Whyley (1999b)	<p>Quantitative Data from the FRS 1995/96</p> <p>Qualitative 87 in-depth interviews with financially excluded individuals identified from previous studies; focus groups</p>	<ul style="list-style-type: none"> - Seven per cent of households in Britain⁴⁸ (around 1.5 million) are without any mainstream financial products, including a bank or building society account, savings or investment products, private pension, mortgage and any type of insurance - 19% have only one or two financial products 	<p>Without any financial products:</p> <ul style="list-style-type: none"> - Households headed by a single person (74%) - Households living in social rented accommodation (84%) - Households headed by someone not in paid work (94%) - Households with a net weekly household income of between £50 and £150 - Households living in the most deprived areas in England and Wales (46%) - Households living in Scotland (18%)

⁴⁸ Before the 2002-03 FRS data for Northern Ireland are not included.

Table 3.1 illustrates the scale of exclusion in the four key financial exclusion areas: credit, banking, savings and home contents insurance. The studies are largely based on a mixture of quantitative and qualitative data, which reflects the breadth, but also the quality of people's engagement with financial services such as the proportion of households that use formal savings products.

The level of exclusion varies across different types of financial services. The biggest extent of exclusion can be described for banking and insurance, with a significant number of people lacking either a current account or home contents insurance. With respect to savings exclusion, access to formal savings products seems not to be a big problem for many. However, active use of these is less frequent, with many households using informal saving methods.⁴⁹ The extent of exclusion from mainstream credit is generally difficult to estimate since there are no reliable (official) figures for the number of people excluded from mainstream credit. For example, not all people who do not use mainstream credit want credit or do apply for mainstream credit if they want to borrow so that it is not known whether they would be refused. The proportion of people who use home credit and pawnbrokers, in contrast to the larger proportion using mail order catalogues, is small; though this number is likely to be underreported since people are reluctant to admit using these sources. These issues point to some of the difficulties with measuring financial exclusion and to the limitation of some indicators to measure exclusion. In this context, qualitative data provide a more detailed insight into the use of financial products than quantitative measures.

Although financial exclusion affects only a minority of the population research suggests that it concerns, in most cases, those individuals and households that are most vulnerable in terms of their socio-economic status, including single parents, social tenants, the long-term unemployed, members of some minority ethnic communities and those living on persistent low incomes. Some of these studies also give evidence of regional variations in financial exclusion, with, for example, higher levels of banking exclusion in Northern Ireland and Scotland. Research suggests that individual factors

⁴⁹ Research often narrowly refers to savings exclusion in terms of lacking savings or the ability to save, which does not, strictly speaking, refer to people's engagement with the financial system, but people's financial situation more generally.

which influence financial exclusion are often interrelated. Single parents, for example, are often unable to work (full-time) because of care responsibilities and therefore tend to live on low incomes and live in social rented accommodation. Overall, the studies point to an important impact of social and economic disadvantage on financial exclusion. It was shown in the first part of the chapter, by means of the various dimensions of financial exclusion, why this is likely to be the case. For example, single parents who are likely to live on a low income and are often unable to work are also likely to score low on any credit rating, hence possibly resulting in outright refusal of financial products. Low income, however, can also be a *direct* cause of exclusion rather than merely informing institutional -led barriers such as credit scoring. For example, the most important reason why households stop formal saving was a change in economic situation, either through a loss of earnings or increased household expenditure (e.g. starting a family); conversely they had started to put money into savings again when their economic circumstances improved, as Kempson's (1998b) study on savings in low-income households suggests. Savings exclusion thus can also serve as an indicator of impoverishment.

While the studies presented in Table 3.1 and other research (see for example, OFT, 1999b; Rowlingson et al., 1999) offer information on the scale of financial exclusion, they do not do so to the same extent or as systematically as Kempson and Whyley's study *Kept Out or Opted Out?*, which was published in 1999. Rather than examining financial exclusion in relation to individual products, the researchers identify different degrees of financial exclusion, ranging from no access to any type of financial products to being on the 'margins of exclusion' (Kempson and Whyley, 1999b). While only a small minority lacked any financial products, more experienced exclusion from one or two financial products. Overall, access to current and savings accounts was most common. By and large, Kempson and Whyley's study confirms the vulnerability of social disadvantaged households to financial exclusion and identifies regional variations in the level of exclusion. Their study also supports claims of a geographic dimension of financial exclusion, with the likelihood of having financial products being 'linked to the overall level of deprivation within a local community' (Kempson and Whyley, 1999b: 7).

Kempson and Whyley's conceptualisation of financial exclusion is reflected in their understanding of the phenomenon, which refers to 'all those who lack any financial

products' (Kempson and Whyley, 1999b: 2). However, this understanding does not take into account the appropriateness and, hence, relevance of financial products for individuals. Access to mortgages, which is included in their analysis, for example, has little relevance for most financially excluded people. Although Kempson, in earlier research, noted that many bank account holders were not using their account for various reasons (Kempson, 1994), the extent of non-use of financial products was not explored in Kempson and Whyley's (1999b) research.

One study which offers indications of the extent of non-use or dormant accounts among account holders is the consumer survey study of the OFT (1999). While, overall, only one per cent have dormant accounts, this proportion is significantly higher among households on very low income, those living in social rented accommodation and those affected by unemployment (OFT, 1999a). The extent and nature of use issues are more fully explored in subsequent research, largely in the context of progressing financial inclusion policies, which *inter alia* saw a greater provision of banking services.⁵⁰

Since these initial studies on financial exclusion, an extensive body of research has emerged which confirms the scale of financial exclusion particularly among disadvantaged groups (Collard and Kempson, 2003; Devlin, 2005; European Commission, 2008a; Goodwin et al., 2001; McKay and Collard, 2006; Meadows, 2000; Whyley and Brooker, 2004), with employment status, household income and housing tenure being the most influential and consistent influences on financial exclusion (Devlin, 2005) as well as disability (OFT, 1999b). However, since Kempson and Whyley's (1999) publication, a comprehensive analysis of the overall extent of financial exclusion in the UK has not been repeated for more recent years; though comprehensive studies exist for Scotland (Hayton et al., 2007) and at the European level (European Commission, 2008a). These confirm the close relationship between financial exclusion and indicators of deprivation.

Given the increasing need for financial products in modern society and growing interest of policy makers to reduce levels of exclusion, as discussed in Chapter 4, the scale of

⁵⁰ These studies will be discussed in detail in Chapter 4.

exclusion is likely to change over time. This is, for example, illustrated by the two previously mentioned studies on banking exclusion, which indicate decreasing levels of exclusion (Kempson, 1994; Kempson and Whyley, 1998). This point is discussed further below.

3.2.1 Changes in Financial Exclusion over Time

Researchers have noted that financial exclusion is a dynamic concept, with people moving in and out of exclusion over time. In relation to banking, Kempson (1994) notes that:

with the exception of elderly people who had retired from manual jobs, there was not a group of people who remained outside the banking system for the whole of their lives, there were flows into and out from this group as people's economic circumstances changed (Kempson, 1994: 7).

This is confirmed by Kempson and Whyley's (1999b) study, which shows that about a quarter of households had some financial products in the past or having yet to engage (fully) with financial service providers, particularly young adults and students. Research suggests that particular changes of circumstances which adversely affect people's economic situation (e.g. unemployment, relationship breakdown, bereavement) are most likely to predict the closing down of financial products (Kempson, 1994; Kempson and Whyley, 1999b); again highlighting the importance of processes of social exclusion in predicting financial exclusion. In contrast, for others, financial exclusion can be a more persistent experience, particularly for elderly people on low income, single (female) parents, low-paid workers in flexible employment; and some minority ethnic groups (Kempson and Whyley, 1999b).

According to analysis of the National Policy Institute's (NPI) *Monitoring Poverty and Social Exclusion* (MPSE) report, which measured progress towards tackling poverty and social exclusion since 1998, the proportion of low-income households - in the poorest fifth of income distribution - without bank accounts or any other types of account has decreased significantly in the past decade: from 20% to 25% in the mid-1990s to six per cent in 2005/06 (Palmer et al., 2007). However, the proportion of unbanked low-income households rises to 11% when POCAs, which are popular amongst low-income households but only offer very basic financial services, are omitted from the analysis.

This and data from the latest FRS show that patterns of financial exclusion had remained unchanged despite changes in account holding in recent years. Data from the 2006/07 FRS give evidence, for instance, of the regional uneven distribution of banking exclusion and among certain social groups, including pensioners, single parents and workless households and those living on a weekly income between £100 and £200 (DWP, 2008). In addition, the promotion of new types of banking services by policy makers clearly brings to light the nuances of financial exclusion: while higher-income households in work are generally more likely to have a current account, basic bank accounts and POCA ownership are more common in deprived households, hence reflecting overall level of disadvantage. Overall, similar patterns emerge for other types of financial services that are covered by the FRS, including savings accounts and home contents insurance.

3.3 Linking Financial Exclusion to Wider Disadvantage

The previous sections have highlighted that financial exclusion is often associated with other forms of social disadvantage, in particular being a single parent, living on low incomes or in areas of deprivation. Although financial exclusion is often not directly related to social disadvantage, social and economic vulnerability nevertheless leads to a complex set of barriers that make exclusion from the financial mainstream more likely for these groups, for example through exclusionary procedures of banks. In turn, exclusion from the financial mainstream can have significant financial and social consequences for individuals. These will be discussed in the following section.

3.3.1 Costs Associated with Financial Exclusion

Financial exclusion is often associated with higher costs in the literature. This is particularly associated with banking exclusion and the use of high-cost lenders.

Banking: Firstly, handling a cash budget can make money management ‘more complex and time-consuming, more costly and less secure’ (Kempson, 2003: 14). For example, cashing cheques becomes more difficult as most cheques are now automatically crossed ‘Account (A/C) payee only’ so that only the person named on the cheque can cash them (Kempson, 2003). As a result people need to either make out cheques in a relative’s or friend’s name or using cheque cashers facilities, which are relatively costly (Kempson, 2003).

Another example that is often cited is the payment of utility bills where unbanked or under-banked people do not take advantage of savings offered to those paying by direct debit. This issue is widely acknowledged in the literature (Conaty and Bendle, 2002; Drakeford, 1997; Kempson, 1997a; Kempson and Whyley, 1999b; OFT, 1999b; Palmer and Conaty, 2002; Speak and Graham, 2000). Instead, people use more expensive prepayment meters, which can be topped up by cards or tokens, to pay for gas and electricity, with tariffs being on average 27% higher, compared to those paid for by direct debit (Speak and Graham, 2000: 5). In fact, the majority of those who use fee-charging postal orders or prepayment meters have no account in the household or accounts they do not use ('dormant accounts') (OFT, 1999a). This method of paying for utilities is particularly common among vulnerable households: almost half (49%) of single parents and 36% of low-income couples with children have a electricity prepayment meter, as a study by Bridges and Disney (2004) found. Therefore, since this method of payment is more expensive and vulnerable individuals are more likely to use it, this can have a deteriorative impact on their financial situation. However, although these households do not necessarily get into debt because this method of payment gives low-income households more control over the payment of utility bills as several studies suggest (Herbert and Kempson, 1995; Kempson et al., 1994), a case for social justice needs to be made since it is poor people who pay most for the supply of utilities. In addition, in cases in which people decide to pay utility bills monthly or quarterly by direct debit, the occurrence of bank charges for defaulted payments or overdrawing can exacerbate financial difficulties (see for example, Speak and Graham, 2000). In 2007, nine out of 17 financial institutions which offer basic bank accounts charged £30 or more for unpaid direct debits (FSA, 2008). This can have significant consequences for those who live on benefits as their main source of income.

Credit: Financially excluded people are also liable to higher charges for credit. For example, the Annual Percentage Rate (APR) charged by home credit providers ranges from 100% to around 500%⁵¹, depending on the size and length of the loan

⁵¹ This includes the costs for late payment, the administration of providing small-scale loans and collecting premiums door-to-door (Kempson and Whyley, 1999a; Leyshon et al., 2004). Similarly, offering home credit service on a not-for-profit basis means that the cost of home credit would be high, as a recent study by Kempson et al. (2009)

(Rowlingson, 1994), while the typical APR charged by pawnbrokers is lower, ranging between 70% and 200% (Collard and Kempson, 2003). Research based in Ireland estimates that users of the home credit market, on average, pay 60% of their weekly household income on servicing loans, in contrast to the 20% paid by those who borrow only from mainstream sources of credit⁵² (Byrne et al., 2007). Thus users of these sources of credit who are often economically deprived are further impoverished (Ford and Rowlingson, 1996; Kempson et al., 1994; Kempson et al., 2000; Palmer and Conaty, 2002): a fact that can have implications for their future borrowing behaviour. Again, the issue is one of social justice and preventing further impoverishment, as Leyshon et al. (2004), for example, note: ‘poorer people have to pay significantly more for a narrower range of products’ (Leyshon et al., 2004: 642). Furthermore, financially excluded people cannot take advantage of earning interest on their savings since they save money informally. In addition, there are security issues with keeping money at home, particularly since low-income households are more likely than more affluent ones to be without home contents insurance, but are three times as likely to be burgled as those with home contents insurance (Palmer et al., 2006) and are least able to replace lost or damaged possessions (Whyley et al., 1998). Being without insurance cover and formal savings can thus intensify the experience of poverty and may lead to a reliance on high-cost credit to replace stolen or repair possessions.

The costs associated with using non-mainstream credit and using bank accounts are linked in the literature with the occurrence of debt problems or over-indebtedness.⁵³ These links are explored in detail below.

3.3.2 *Over-indebtedness*

Evidence of a relationship between financial exclusion and over-indebtedness is often drawn from the fact that these two phenomena frequently affect the same sections of the

suggests. Taking these factors into consideration would reduce the APR on a £100 loan from 292% to 83% (Kempson and Whyley, 1999a: 5), which is still high in comparison with other sub-prime lenders and mainstream credit providers.

⁵² His calculation includes credit unions as mainstream source of credit.

⁵³ The term ‘over-indebtedness’ typifies a situation in which households or individuals are ‘unable to pay their current credit repayments and other commitments without reducing other expenditure below normal minimum levels’ (DTI, 2004: 9). This definition was adopted from the CABx (Edwards, 2003) and is shared by other authors (European Commission, 2008b; Gloukoviezoff, 2007; Kempson, 2002; McKay and Collard, 2006).

population such as single parents, economically inactive households, those living in social rented accommodation and on low incomes (Bridges and Disney, 2003; Collard and Burrows, 2002; DTI, 2005; Edwards, 2003; Gloukoviezoff, 2007; Goodwin et al., 2001; Kempson, 2002; McKay and Collard, 2006). They are both understood to be part of processes of social exclusion. For example, research shows how people on low incomes regularly borrow from high-cost lenders to cover necessities (see for example, Berthoud and Kempson, 1992; Collard and Kempson, 2005; Ford, 1991; Kempson et al., 1994; OFT, 1999b; Rowlingson, 1994; Whyley and Brooker, 2004) and how this can exacerbate financial difficulties. Therefore, a connection between over-indebtedness and financial exclusion is often made in respect of credit exclusion; whereas financial difficulties are often ascribed to the high-costs associated with sub-prime credit use, particularly home credit.

For example, the costs for a £500 loan from a home credit company are three times higher than a comparable loan from a building society (Ford and Rowlingson, 1996) and items are considerably more expensive when bought through a doorstep lender or a catalogue than in a shop (Speak and Graham, 2000). Borrowing from unlicensed moneylenders in particular is expensive, with costs being approximately three times higher than credit from even the highest-charging legal lenders (Ellison et al., 2006). Using these high-cost lenders thus can lead to a 'cycle of poverty and over indebtedness' (Jones and Barnes, 2004: 8) and 'may create enduring poverty traps of its own' (Whyley et al., 1998: 13). This is in concordance with other studies among homeless people (Nandy, 2005) and users of illegal lenders (Ellison et al., 2006). Ellison et al.'s (2006) report for the DTI on illegal lending in the UK, for example, notes that financial difficulties are often a direct result of using illegal lenders, partly because of the agent-customer relationship and the weekly presence of lenders at users' home. Using doorstep lenders can also lead to the neglect of other household commitments and thus arrears. For example, Whyley and Brooker (2004) note that some users of sub-prime credit repay loans ahead of utility bills and other household commitments (Whyley and Brooker, 2004). There is also evidence that some companies in the sub-prime lending market are deliberately misleading clients into taking out loans that are not suitable to their needs and which they cannot afford or target low-income families at specific times such as Christmas or during school holidays (Kempson and Whyley, 1999a; Kempson et al., 2000; Munro et al., 2005); thereby increasing the risk of over-indebtedness. It is particularly people on very low incomes who borrow from

doorstep lenders to make ends meet and who may need further loan top-ups in order to meet loan repayments that are more likely to get into financial difficulties, as Rowlingson (1994), for example, suggest. Over-indebtedness is thus not only linked to the costs associated with sub-prime lending, but also to the lending practices of this market. The last reference also suggests that borrowing behaviour itself can contribute to financial difficulties; hence indicating that the relationship between high-cost credit and over-indebtedness is more complex than sometimes suggested in the literature. This point is discussed below.

The perspective of consumers: Alongside the costs and lending practices associated with sub-prime lending, it is also argued in the literature that consumers are often not aware of the costs of borrowing from sub-prime sources and lack *formal* knowledge about financial products and services in general (see for example, Berthoud and Kempson, 1992; Jones and Barnes, 2004; Rowlingson, 1994). Although home credit users are generally aware of the costliness of using this source (Gillespie et al., 2007), the affordability of the total amount added on to a loan and the weekly repayments stand more in the foreground than formal knowledge of terms and conditions (Berthoud and Kempson, 1992; Byrne et al., 2007; Kempson and Whyley, 1999a; Whyley and Brooker, 2004). Moreover, ‘myths’ about the costs of borrowing are common within users’ social networks (Jones and Barnes, 2004), who are often as marginalised from the financial system as consumers themselves (Kempson et al., 2000); thereby reinforcing processes of financial exclusion. For consumers, this makes it more difficult to compare different products and choose the best available deal since alternative information is missing. In addition, over-commitment and poor financial management are important factors in explaining over-indebtedness (Berthoud and Kempson, 1992; Edwards, 2003; Kempson, 2002; Kempson et al., 2004b; Sharp, 2004). Thus it is not only the types of financial product that are on offer which can cause debt problems, but also borrowers’ behaviour.

Use of mainstream credit: One important point that has often left unexplored in discussions about sub-prime credit use and over-indebtedness is that the distinction between the use of the sub-prime and mainstream credit market is not always as clear-cut as sometimes presented in the literature. More affluent consumers will, on occasion, use sub-prime credit, though often for different reasons than the less wealthy, as several studies suggest (Berthoud and Kempson, 1992; Collard and Kempson, 2003). In

addition, studies show that low-income consumers, in some instances, also use mainstream credit, including credit cards, bank loans and overdrafts (see for example, Berthoud and Kempson, 1992; Kempson et al., 1994); though it is not the most vulnerable people that have access to these sources.⁵⁴ However, recent research has begun to recognise the importance of mainstream credit in explaining low-income households' experience of over-indebtedness (Ambrose and Cunningham, 2004; Gloukoviezoff, Undated; Sharp, 2004). Sharp (2004) for example, mentions the general easy access to mainstream credit, the imposition of charges on top of borrowing, such as penalty charges, and cases where high-street banks offer consolidation loans that creditors will find difficult to repay. Similarly, using an unauthorised overdraft of a bank account or exceeding an overdraft limit can be very costly. These costs can exacerbate borrowers' financial situation and may lead to further use of credit, including higher costs options, as Collard and Kempson's (2003) research for instance suggests. Thus considering mainstream credit is important in order to fully understand the experience of debt problems amongst low-income consumers.

Banking: Links between over-indebtedness and financial exclusion have also been established in relation to banking, whereas financial difficulties are generally associated with not having a bank account (Atkinson et al., 2006; Berthoud and Kempson, 1992; Kempson et al., 2004b; McKay and Collard, 2006). Based on data from the PSE survey, McKay and Collard (2006), for example, note that those without an account, aged 16-59, are nearly four times as likely to be in arrears than those with an account. The causality of this relationship, however, is not clear: does over-indebtedness cause banking exclusion or vice versa? In the literature, evidence is found for both. On the one hand, the lack of a bank account is found to be independently predictive of over-indebtedness among households (Atkinson et al., 2006; Kempson et al., 2004b). Kempson and her colleagues (2004b), for example, suggest that lacking an account doubles the odds of falling into arrears on household bills for all households types (except families with children) (after controlling for age, income and other factors). This may be explained by difficulties with handling finances without an account or reflects the use of expensive types of credit among unbanked households. On the other hand,

⁵⁴ Using these sources is often linked to being in paid employment (Collard and Kempson, 2003) or having been in

Berthoud and Kempson (1992) find no empirical evidence to show that banking exclusion influences over-indebtedness. Rather, the effect of not having a bank account on debt problems is likely to be mediated through low income (Berthoud and Kempson, 1992). Falling into arrears may thus be driven by poverty rather than the lack of an account *per se*.

While there are potential advantages in using an account and paying bills by direct debit since handling a cash budget is generally associated with a more complicated, time-consuming and expensive money management strategy⁵⁵ (see for example, Collard et al., 2001; Kempson and Whyley, 1999b; Kempson et al., 2000; McKay and Collard, 2006), an account-based strategy can similarly contribute to people's debt problems. For example, research by Kempson and Whyley (1999b) describe how people on low incomes are becoming overdrawn by using direct debit facilities. Similarly, research by the NCC (2005b) and others such as Gloukoviezoff (2007) show that 'over-indebtedness is one of the consequences of banking problems' (Gloukoviezoff, 2007: 213). Therefore, just having an account is no criterion for good financial money management. People also need to be able to make good use of it.

While financial exclusion can be a contributory factor to debt problems, this relationship is likely not to be as clear-cut as often presented in the literature. Research on over-indebtedness generally highlights the importance of living on a constant low income (often associated with other factors such as being a tenant, single parent, unemployed, ill or disabled) and change of circumstances (e.g. relationship break-up, bereavement, starting a family, job loss) in causing over-indebtedness (see for example, Berthoud and Kempson, 1992; Bridges and Disney, 2004; Edwards, 2003; Kempson et al., 2004b). This is also referred to as a case of 'passive over-indebtedness', as opposed to 'active over-indebtedness' which is explained by 'excess borrowing without any change in resources' (i.e. over-commitment) (Gloukoviezoff, 2007: 225). Overall, research confirms that other factors than aspects of financial exclusion are important in explaining over-indebtedness.

paid work when credit was made available (Kempson et al., 1994).

⁵⁵ This can be particularly an exhausting and lengthy activity for elderly and less mobile consumers.

Consequences of over-indebtedness: The experience of over-indebtedness has severe consequences for individuals and communities and can be an important contributory factor to social exclusion more generally. In this context, over-indebtedness is particularly associated with stress or anxiety, which, in turn, can have an adverse effect on debtors' (physical and mental) health and their personal life (e.g. relationships, employment) (see for example, Ambrose and Cunningham, 2004; Cullen et al., 2004; Edwards, 2003; Ford, 1991; Kempson et al., 2004b). In contrast, health problems or having a disability, in some circumstances, can contribute to or even cause over-indebtedness (Balmer et al., 2006; Cullen et al., 2004; Kempson et al., 2004b; Meltzer et al., 2002; Williams, 2004). Thus the relationship between health and debt problems works in both ways.

Over-indebtedness has also been identified as an important contributory factor to financial exclusion, making it particularly difficult for people with an impaired credit history or a history of problem debts to access mainstream credit or even borrow from licensed sub-prime lenders (Anderloni et al., 2007; Burchardt and Hills, 1998; Ellison et al., 2006; Gloukoviezoff, 2007; Kempson and Whyley, 1999a; Kempson et al., 2000). Similarly, over-indebtedness has a detrimental effect on banking exclusion. For example, people can be obliged to stop using an account because of financial difficulties (BBA, 2000) or are unable to open one (Gloukoviezoff, Undated). Having debt problems is also likely to impact on savings exclusion, which is linked to overall income, since debtors need to repay debt and any incurring charges. Overall, this suggests that financial exclusion can not only affect those individuals who live on low incomes, but also more affluent people who have got into financial difficulties and thus subsequently find it difficult to access mainstream financial products.

3.3.3 *Employability*

In the literature, links between financial exclusion and employability are particularly associated with banking exclusion. It is argued that not having a bank account can make it difficult to accept a job as most employers now require employees to have their wages paid directly into their accounts (see for example, Clark and Aynsley, 2008; Devlin, 2005; Speak and Graham, 2000). Having a bank account is therefore seen as a prerequisite of employment. This is suggested by Jones' (2008a) research on the impact of banking inclusion on ex-prisoners' lives. His study found that having a bank account had helped some ex-prisoners to secure employment. However, while the lack of a bank

account makes it clearly more difficult for people to receive wages and thus sustain employment, as Collard et al. (2003b) have shown, there is little empirical evidence of a direct relationship between banking exclusion and employability. In addition, the causality of such a relationship is unclear. Given evidence on the impact of personal changes, such as moving into employment, on banking (see for example, Kempson, 1994) and the difficulty of unemployed people with opening accounts, it is likely that those who move into work find it easier to access one. In fact, studies suggest that despite lacking banking services people are able to enter the labour market (Collard et al., 2003b; Speak and Graham, 2000), only then choosing to open a bank account in order to get paid (Clark and Aynsley, 2008; Kempson, 1994; Kempson and Whyley, 1999b). This suggests that gaining employment is an important incentive to engage in the financial system rather than that having a bank account is a necessary precondition to entering the labour market. Moreover, it is too simplistic to assume that banking exclusion is the central issue for unbanked people who are outside the labour market; with other factors such as a lack of childcare facilities or low formal skills likely to be of greater importance. Indeed, to the knowledge of the researcher, there is no study which measures these links directly, exploring the impact of banking exclusion on unemployment and in relation to others factors that evidently impede employment. However, the experience of over-indebtedness, of which financial exclusion is a contributory factor, is a factor that has been identified as an impediment to work through its links to borrowers' health and well-being (Ambrose and Cunningham, 2004).

3.3.4 Summary

The last part of the chapter reviewed evidence on the wider impact of financial exclusion and its links to social exclusion processes. In particular this part identified links between financial exclusion on the one hand and impoverishment, over-indebtedness, and, less conclusive, on employment on the other. The greatest impacts of financial exclusion are thus on the financial situation of financially excluded individuals and households. Although not impacting on people's income *per se*, the greater costs associated with, for example, paying bills manually, or the influence of financial exclusion on over-indebtedness, can mean that individuals' experience of poverty deteriorates.

3.4 Conclusion

This chapter discussed a wide range of factors contributing to financial exclusion. On the macro-level, changes in the structure of the financial services industry and supporting societal factors such as labour market changes and income inequalities have created a series of barriers that make engagement with the financial system more difficult for some people. These affect particularly those individuals and households that are most vulnerable in terms of their socio-economic status and disadvantaged communities. Rather than being in or out of the financial system, people experience different degrees of exclusion, with consumers having banking services, for example, but finding it difficult to use these for various reasons. On the individual level, specific factors, in particular low income, levels of financial literacy and capability, employment status, family composition and housing tenure, support processes of financial exclusion. On the one hand, these factors increase people's likelihood to be rejected by the financial system. On the other hand, they lead to self-exclusion since financial products become unaffordable or difficult to use. Alongside the design and delivery of mainstream financial products, psychological factors, such as mistrust of banks, and low-income consumers' preferences also play a role in explaining financial exclusion. Its causes are therefore more complex than a focus on supply-side barriers suggests: individual or demand-side barriers also need to be considered in order to fully understand why exclusion occurs.

In the literature, links are made between financial exclusion and factors that contribute more widely to processes of social exclusion. The experience of exclusion is associated with financial as well as social costs for the individual. Financial exclusion, for instance, influences the way in which individuals receive money, manage finances and pay for bills. Moreover, it affects people's quality of life more generally. On the collective level, processes of financial exclusion are said to contribute to developments of area degeneration and economic decline. Overall, the evidence suggests that financial exclusion can be both the cause and the consequence of processes of social exclusion. However, while there is an abundance of information about financial and social exclusion, there is a dearth of literature observing systematically the links between the two concepts. In addition, their relationship is often not explored systematically. For example, the causality of the relationship between financial exclusion and employment, though often claimed, is unclear. It is also widely assumed that sub-prime credit use

contributes to over-indebtedness. However, the extent to which the use of sub-prime credit sources is independently predictive of debt problems is inadequately explored. It is one of the aims of this research to understand the key processes which lead to financial inclusion better. For example, research shows the important impact of personal circumstances in predicting financial exclusion. These are also likely to play an important part in promoting financial inclusion. However, it is unclear to what extent financial inclusion will contribute to the wider processes of social inclusion and what impact it makes on people's lives. This is another point to which this research is able to contribute.

The next chapter discusses policy responses to financial exclusion in the UK and its devolved government in Scotland. Policy interventions are likely to influence people's experience of financial exclusion. A review of the key initiatives of both governments will further an understanding of how financial exclusion can be improved and the impact of improved inclusion; hence providing a background for an understanding of the work of financial inclusion agencies which are the focus of the empirical part of the study.

Chapter 4 - Policy Responses to Social and Financial Exclusion

This chapter explores the financial inclusion agenda of the UK government⁵⁶ and of its devolved government in Scotland. The first part of the chapter presents an overview of the social inclusion strategy of Westminster and Scotland and analyses how the financial inclusion policy fits within this strategy. In this context, the key strategic documents, reports and initiatives are described and explored in detail.⁵⁷ In the second part, evidence relating to the success of individual financial inclusion initiatives and promotion of financial inclusion in general is extracted from existing evaluation studies. Where applicable, differences between the financial inclusion strategy in Scotland and the UK-wide policy are considered.

4.1 The Policy Concept of Social Exclusion

The European Union (EU) was decisive in introducing and disseminating the concept of social exclusion in Britain (Berghman, 1995). It first entered the political agenda in 1989 when the UK government agreed with the rest of the EU member states that social exclusion is a widespread phenomenon within the EU and that a EU-wide approach is needed to tackle exclusion (Carmichael, 2001: 161). This laid the first claim to the concept as a ‘legitimate concern’ and policy issue of the EU (Daly, Undated: 6). However, it was the incoming Labour government in 1997 which brought the concept firmly on the policy agenda in the UK.

The establishment of the Social Exclusion Unit (SEU)⁵⁸ by the new government in December 1997 underlines the centrality of social exclusion as a political issue. Its remit was to develop coordinated policies to tackle the problem of social exclusion: to find ‘joined-up solutions to inter-connected problems’ (SEU, 2004b: 1). This was to be achieved through partnership working, but also through drawing extensively on research, external expertise and good practice (SEU, 2004a). Furthermore, the complex

⁵⁶ In the following, the term ‘government’ is generally used to refer to the UK government. Special reference will be made when talking about the Scottish government or the Scottish Executive.

⁵⁷ Literature until mid-2008 is generally considered.

⁵⁸ The SEU’s remit covered England only. However, the analysis underlying the report and the strategy to tackle social exclusion was supported by the Scottish, Welsh and Northern Ireland Offices.

nature of social exclusion itself makes ‘joined-up solutions’ necessary. In the Unit’s first published pamphlet, social exclusion is described as:

a shorthand label for what can happen when individuals or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environment, bad health and family breakdown (SEU, 1997).

The government’s understanding of social exclusion embraces many of the aspects of the concept that have been discussed in Chapter 2. It acknowledges the individual and spatial dimension of social exclusion, its multidimensionality (‘linked problems’) and addresses a range of social problems, such as unemployment or low incomes. However, it has been criticised that the distinct concepts of poverty and social exclusion are often treated as synonymous, both in policy discourse and political debates on national and European level (see for example, Levitas, 2000). Although the SEU’s (1998) report *Bringing Britain Together: A National Strategy* addresses some of the structural causes of social exclusion, including ‘major economic and social changes’ (SEU, 1998a: 3), social exclusion is largely understood as something that affects certain individuals or areas. The Unit’s successive report *Bringing Britain Together: A National Strategy for Neighbourhood Renewal* further describes where the problem of social exclusion is concentrated: in ‘pockets of intense deprivation’, with high levels of unemployment and crime, in combination with poor health, housing and education (the ‘worst estates’) (SEU, 1998b: 3). The Unit further suggests that it is certain marginalised groups in society that require attention such as homeless people, youth offenders and teenage mothers (SEU, 2003, 2004). The problems of particular groups in society are further singled out in the government’s current *Action Plan on Social Exclusion* (HM Government, 2006). This report focuses on the ‘deep-seated’, persistent exclusion of a small minority of people that have not profited to the same extent as others from the government’s social inclusion measures, such as those living on very low incomes⁵⁹ (HM Government, 2006).

⁵⁹ This approach is coordinated by the new Social Exclusion Taskforce, which replaced the SEU in June 2006. In contrast to the SEU, which had a broader remit, the Taskforce aims to identify the social groups most at risk of social exclusion and its remit is narrower to focus on specific hard-to-reach groups, particularly long-term excluded families, people with mental health problems and teenage mothers (Cabinet Office, 2007).

Thus although the concept of social exclusion seemed to offer a more adequate and neutral alternative to the more negative term ‘poverty’, it nevertheless carries many connotations that underlined previous debates about poverty in the UK, including notions of an early occurrence and persistence of disadvantage among certain social groups, individual responsibility for poverty and the inter-generational transmission of disadvantage. This has led some authors, like Smith (2005), conclude that the new term largely constitutes a new label for the same underlying assumptions. In fact, New Labour policy reflects, to some extent, New Right ideology. This is characterised by a reduced role for the state in the provision of social welfare and a greater emphasis on the need for individuals to make their own provisions, as Mack and Lansley (1985) argue. Furthermore, rather than looking at the processes of exclusion, the government makes moralistic claims about altering the behaviour of excluded people, which implies a narrow understanding of the concept. Fairclough (2000) highlights that:

In the language of New Labour social exclusion is an outcome rather than a process – it is a condition people are in rather than something that is done to them (Fairclough, 2000: 54).

For example, within the government’s social exclusion strategy there is a strong emphasis on paid work as the best route out of poverty (see for example, HM Government, 2006: 78). This approach does not acknowledge the reality of the many people that are in poorly paid jobs (despite the introduction of a National Minimum Wage and in-work benefits which was supposed to ‘[make] work pay’ for those in low-paid jobs (SEU, 2004b: 9)). As Toynbee (2003) argues: ‘[t]he greatest single group of poor people are already in work’ (cited in Smith, 2005: 61). This shows clearly that better outcomes for people can only be achieved if the structural causes of poverty, such as the growth in the insecure, flexible labour market and income inequality, are tackled.

Overall, the issues discussed above suggest that the broader meaning of social exclusion and its capacity to point to the ‘wider field’ and the processes that lead to exclusion are not reflected in policy thinking about social problems. This also applies to thinking about financial exclusion which is discussed later.

4.2 The Emergence of Financial Exclusion on the Political Agenda

Improving access to services, including retail and financial services, was first mentioned as a central area of policy in the SEU's report *Bringing Britain together: A National Strategy for Neighbourhood Renewal*, which was published in 1998.⁶⁰ According to the SEU:

Many financial services are less accessible for people living in poor neighbourhoods. Some insurance companies have been accused of 'red-lining' particular areas (...) people living in poor neighbourhoods often have to depend on very expensive forms of credit, including 'loan sharks' (SEU, 1998b: 65).

This statement suggests that financial exclusion is perceived as a phenomenon which exists particularly in disadvantaged neighbourhoods, hence following early geographic-based interpretations of the term in the literature. The *Bringing Britain together* report also stresses the government's interest in tackling financial exclusion as part of their overall social inclusion/neighbourhood renewal agenda, with the Treasury as central policy department. The report spells out the possible key aspects of financial exclusion that should be targeted. In contrast to a later policy emphasis on access to banking, this report focusses on the development of credit unions⁶¹, increasing the availability of insurance, and the role of banks, the post office and other organisations in generally providing access to financial services in disadvantaged communities as key areas of interest (SEU, 1998b).

4.2.1 Policy Action Team 14

Following the publication of the *Bringing Britain together* report, 18 Policy Action Teams (PATs) were formed to explore the government's five key strands in greater detail: employment, community-regeneration, social inclusion for young people,

⁶⁰ However, interest in the topic existed before as evidenced by research commissioned on banking exclusion in 1994. Kempson's study on banking was the first of several other consultation papers and reports that were commissioned by the government in order to explore the issue of financial exclusion.

⁶¹ Building a sustainable credit union development has been an issue of great significance since the late 1990s (see for example, Fuller, 1998; Fuller and Jonas, 1999; Jones, 1999). The shortcomings of credit unions at the time were also pointed out in, for instance, Kempson et al., 1994 and Kempson and Whyley, 1999a.

financial inclusion and exploring ways of joined-up working between different governmental departments as well as non-governmental groups and outside experts. One of the PATs – PAT 14 – dealt specifically with financial services. Its overarching goal was ‘to develop a strategy to increase access to financial services for people living in poor neighbourhoods’ (SEU, 1998b: 66). In their report, the term ‘financial exclusion’ is first mentioned. According to PAT 14:

Financial exclusion means that many in those [deprived] communities, often those in the greatest need, do not have the access to financial services the rest of us enjoy, and are worse off as a result. Income, saving and borrowing facilities and how we access and make use of them through credit lines, mortgages, insurance and pensions, are central to how many people organise their lives and plan their futures (HM Treasury, 1999a, forward).

Here, several aspects of financial exclusion are brought up. Financial exclusion is defined as lacking access to financial services that are customary in today’s society such as banking, saving and borrowing facilities. It is associated with ‘those in the greatest need’, who, in turn are ‘worse off’ as a consequence of financial exclusion. Throughout the report of PAT 14, links are made between financial exclusion and social exclusion more broadly, particularly low income and the manifestation of financial exclusion in deprived areas. The main concern for tackling financial exclusion is the large proportion of particularly vulnerable people that lack access to financial services. The report notes that:

almost 1.5 million low income households do not use financial services, some of which would make their lives easier and reduce their expenses. Over 2 million adults are affected, mostly those not in employment, living on benefits, often social housing tenants, and often living in deprived communities (HM Treasury, 1999a, forward).

In the PAT 14 report, tackling financial exclusion is affirmed as an essential element in achieving the government’s ‘wide aims in eliminating social exclusion’ (HM Treasury, 1999a, forward). While improved financial inclusion is thought to have a positive influence on the lives of individuals in terms of organising finances and easing future planning (*ibid.*), in a wider sense financial inclusion is believed to contribute to area regeneration and help to increase the overall quality of life of people living in deprived neighbourhoods (SEU, 1998b). The report of PAT 14 presents a review of the financial

exclusion literature to date and explores the complex processes that lead to financial exclusion, for instance low-income households preference for a cash budget or mistrust of mainstream financial institutions. However, rather than taking into account the underlying processes that lead to mistrust and a preference for a cash budget (e.g. low income, unemployment), financial exclusion is largely perceived as ‘a mismatch between potential customers’ need and the products on offer’, with product diversity being an obvious solution (HM Treasury, 1999a: 1). Different delivery channels (e.g. mobile bank vehicles, remote ATMs, telephone and online banking) are sought to guarantee access in both rural and urban deprived areas.

While the report largely makes reference to overcoming the supply-side of financial exclusion, which concerns the availability and accessibility of appropriate financial products, some reference is made to tackling demand-side barriers, particularly low levels of financial literacy.

Better understanding of banks and other financial services enables people to make informed choices, so helping to break self-exclusion barriers, and increases the chances of their successfully managing the products they acquire (HM Treasury, 1999a: 62).

This implies a wider understanding of financial exclusion, not only in terms of access to but also the usage of financial services. However, this is only acknowledged by the government at a later stage of its financial inclusion approach.

4.2.2 Summary

The report of PAT 14 represents the first comprehensive policy review of financial exclusion in the UK. PAT 14 recommends a series of reforms to develop credit unions, to make insurance services more available in deprived areas, expand access to banking services and improve the quality and coverage of money advice and promote financial education (HM Treasury, 1999a). These recommendations were implemented by policy makers to varying degrees and in different ‘phases’. Overall, three such phases of the government’s financial inclusion strategy were identified. The first phase discusses the financial inclusion initiatives that were implemented following the report of PAT 14 in 1999 and the policies that built on these initiatives. The second phase is characterised by a more systematic approach towards tackling financial exclusion, which is significantly influenced by the government’s 2004 financial inclusion action plan and also by

considering some demand-side barriers. Ultimately, the third phase has a much stronger focus on tackling demand-side barriers of exclusion. In the following the key initiatives in each phase will be discussed, concentrating on the implementation of policies rather than their evaluation, which will follow later.⁶²

4.3 Policy Responses to Financial Exclusion - Phase I

Despite the discussion of a wide range of measures to tackle financial exclusion in PAT 14's report, including the provision of advice and education, the government's financial inclusion strategy, when it was first implemented, focused exclusively on the development of financial products that would meet the needs and circumstances of people living on low incomes and the delivery of these products to those who live in urban deprived neighbourhoods or rural communities. The government's key policy initiatives of phase I are summarised below (Table 4.1).

⁶² The next section will focus principally on those financial inclusion initiatives that were implemented till the end of 2006 – the time during which the interviews for the main stage of this research were conducted. However, some later initiatives will also be discussed if these are important for the overall context of the study.

Table 4.1 The Key Initiatives of the First Phase of the Government's Financial Inclusion Strategy

Area	Date	Key policy initiative(s)	Supporting initiatives
Banking	Since 2000	- Promotion of basic bank accounts: offer the full range of banking facilities, but have no overdraft facility or cheque book	<ul style="list-style-type: none"> - Replacement of the 1993 Money Laundering Regulations in 2003 and loosened regulations in terms of easing access to financial products for people without the required ID - Further recommendations made in 2004 to ease access to banking services, including increased reliance on a single identification document and the acceptance of alternative forms of ID (e.g. letters from a benefit or government agency) - Changes to Banking Code⁶³ in 2005, including the requirement for banks to assess the suitability of a basic bank account and to offer one if it suits the applicant's needs
	2003	- Introduction of Post Office Card Accounts (POCAs): receipt of social security benefits, state pensions, tax credit and housing allowance; No receipt of any other income; No deposit of money, electronic payments or withdrawal of money at cash machines	- Modernisation of the post office network, including greater commercial and financial freedoms of post offices
Credit	Since 1999	- Social Fund: revision of application procedures in 1999 and 2006; Increase in government funding from 2004/05	
	Since 1999	- Strengthening of the credit union movement; most importantly: credit unions come under the regulation of the Financial Services	- Update of the Consumer Credit Act 1974 ⁶⁵ in 2006 to increase consumer protection and

⁶³ This is a voluntary code which ought to be followed by all banking institutes in their dealings with personal customers in the UK (House of Commons Treasury Committee, 2006a). However, because it is voluntary it is up to each bank how the code is interpreted.

⁶⁴ Reforms were already introduced in 1996 to increase the scope of credit unions' common bond areas, membership, asset size, shareholdings and loans (McKillop and Wilson, 2008), with further changes suggested in 1999 (HM Treasury, 1999b).

⁶⁵ The 1974 Act had been criticised for, *inter alia*, its inadequacy in dealing with many extortionate and unfair lending practices of the sub-prime market (Kempson and Whyley, 1999a).

		Authority (FSA) in 2002 ⁶⁴ ; relaxation of common-bond areas; raise of interest rate cap for credit; and funding for technical, administrative and personnel support, and the provision for financial inclusion services (since 1999)	borrowers' right - Introduction of measures to open-up the home credit competition by the Competition Commission in 2006
Savings	Since 1999	<ul style="list-style-type: none"> - Introduction of Individual Savings Accounts (ISAs) in 1999 and stakeholder pension in 2001 - Launch of Saving Gateway pilots in 2002 and 2005 - Introduction of Child Trust Fund (CTF) ⁶⁶ in 2005 	- Welfare Reform and Pensions Act 1999
Home contents insurance	2001	- Publication of guidance notes on Insurance-With-Rent (IWR) schemes	

⁶⁶ From April 2005, all children in the UK born since 1st September 2002 receive a government endowment of £250 to invest in a long-term savings or investment account, including top-up payments at key life stages (HM Treasury, 2004).

4.3.1 Banking

The central feature of the first phase of the government's financial inclusion strategy, and which remained a central policy, was the area of banking. In the policy texts the importance of access to banking services and its relevance to the inclusion of individuals, households and communities is clearly stated. For example one link that is frequently made is the importance of having a bank account as a pre-requisite for entering the labour market (HM Treasury, 2004) or the need for an account for individuals' money management (HM Treasury, 2004, 2007a).

Promoting basic bank accounts: The introduction of basic banking services has been proposed by a range of authors, particularly Elaine Kempson. As early as 1994, Kempson identified low-income consumers' need for basic banking services and low cost loans facilities (Kempson, 1994). In her report *Outside the Banking System*, Kempson concludes that 'a low-cost source of small one-off advances, together with a facility for handling closed cheques' seems to be the most pressing need for unbanked consumers (Kempson, 1994: 27). Against claims of the government that basic bank accounts were introduced by it and 'specifically designed to address the needs of the financially excluded' (HM Treasury, 2004: 5), several banks already offered 'basic or entry level accounts' accounts for some time when the government took an interest in banking inclusion. These accounts were largely offered to young people and adults who might find it difficult to access traditional current accounts because of credit scoring (HM Treasury, 1999a). Because of the basic features of this type of account in comparison to ordinary current accounts (Table 4.1), the government anticipated that these would make them more accessible to those with an impaired credit history or precarious personal circumstances. A deadline was imposed by the government for all banks to provide such an account by the end of October 2001 (Kempson et al., 2004a). Despite the recommendation from various sides, including PAT 14, and the apparent benefit of such a facility for low-income households (Kempson and Whyley, 1998, 1999b), the government did not incorporate a 'buffer zone' facility, which would allow account holders to overdraw their account by a small amount without incurring charges, as a general feature of basic bank accounts. This facility was, however, voluntarily implemented by six (out of 17) banks and building societies which offered basic bank accounts in 2008 (FSA, 2008).

Universal banking: Alongside increasing the availability of basic banking services to those currently unbanked, the government's banking initiative was further driven by its decision to replace the traditional paper-based methods of paying social security benefits, state pensions and tax credits with an electronic-based payment system that, since 2003, has transferred funds directly to the recipients' accounts. Anticipating problems with regard to area-wide access to banking facilities among benefit recipients because of lack of ID or people's reluctance to opening an account, PAT 14 recommended a simple money transaction facility which can be accessed at the post office or other outlets. This is seen not only as a 'cost-effective delivery channel for benefit payments for the unbanked', but also sought to meet benefit claimants' preference for a cash-budget and the use of the post office rather than banks (HM Treasury, 1999a: 61). Thus a simple money transaction facility was recommended, and in 2003, Post Office Card Accounts (POCAs) were offered as part of the government's commitment to 'universal banking' services (HM Treasury, 2004). In addition, basic bank account became usable at post offices. In contrast to basic bank accounts the functionality of POCAs - as proposed by PAT 14 - is limited to the receipt of social security benefits.

The development of POCAs, the provision of basic bank accounts in post offices and the preceding modernisation of the post office network are the key elements of the government's universal banking strategy and, together with the general promotion of basic bank accounts, forms a central part of the government's financial inclusion strategy.

4.3.2 Credit

The concern for the credit aspect of financial exclusion stems mainly from the apparent exclusion of low-income households from affordable sources of credit (HM Treasury, 2004). Without access to mainstream credit or alternative (affordable) credit options, people may resort to borrow from lenders that operate at the lower end of the credit market or illegal moneylenders (HM Treasury, 2004, 2007b). The government's concern for this aspect of financial exclusion thus needs to be seen in the context of growing concerns about levels of over-indebtedness in Britain. Based on research conducted by CABx (Edwards, 2003) and Kempson (2002), the DTI's 2004 over-indebtedness action plan identifies three main causes of over-indebtedness: change of circumstances; living on a constant low income; and over-commitment and money

mismanagement (DTI, 2004); thereby making reference to some aspects of financial exclusion ('over-commitment'). In addition, lack of access to affordable credit options is identified as another contributory factor to debt problems (DTI, 2004). It is not only the costs of sub-prime or illegal credit that causes concern, but also the lending practices of some of these lenders, which, it is argued, deliberately lead clients into more debt, thereby 'creating and perpetuating a cycle of borrowing and indebtedness' (HM Treasury, 2004: 30). Consequently, access to an appropriate source of borrowing is sought to prevent future financial difficulties of low-income consumers. This policy is complemented by legislative changes to increase consumer protection and strengthen the legal position of borrowers (Table 4.1). However, the promotion of financial education to help consumers to use credit effectively only comes to play in the government's more recent financial inclusion strategy. Overall, the credit aspect of the government's financial inclusion strategy is based on the promotion of credit of two types of sources: the Social Fund and the third-sector, particularly credit unions. These are outlined below.

The Social Fund: The Social Fund, which is administered by Jobcentre Plus, is an important source of credit for people on very low incomes. Since 1988 the Fund has included a discretionary fund which offers grants alongside interest-free budgeting and crisis loans (Whyley and Brooker, 2004). It is the interest-free budgeting loans which are of particular interest to those on qualifying benefits (e.g. Income Support) since they are able to borrow without incurring interest or extra charges. In addition, repayments for loans are usually deducted from benefits, which eases the administration of repayments on the one hand, but is argued to increase financial hardship on the other (Barton, 2002; Collard, 2003; Finch and Kemp, 2004; Kempson et al., 2002; Whyley et al., 2000). The Social Fund, in its previous form, was criticised for a number of reasons. Much of the criticism focussed on the cash-limited budget of the Fund, which was argued to be insufficient to fully meet the borrowing needs of people on low incomes (Collard and Kempson, 2005; Regan and Paxton, 2003; Whyley et al., 2000) since the receipt of loans or grants is subject to availability. As a response, and following the implementation of revised application procedures in 1999, the government introduced further measures in 2006 such as the reduction of maximum repayment rates from claimants' benefits, leaving people with more disposable income (HM Treasury, 2004). Moreover, the gross loans budget has increased by one-third: from around £570 million in 2004/05 to between £700 and £800 million in 2008/09 (Kenway, 2007: 12). Most

recently, the government voiced the idea to supply the Fund with money from general taxation⁶⁷ (HM Treasury, 2007a); possibly resulting in a more just system through the redistribution of income, which can then be lent interest-free to benefit recipients.

Credit unions: It is particularly credit unions and other third-sector lenders⁶⁸ that are seen to offer financial services that constitute an affordable alternative to the more limited, expensive range of choice of credit options that is available to financially excluded people (HM Treasury, 2004). Credit unions are the longest established not-for-profit, third sector lenders in the UK (Collard, 2007). Originating from Germany, they were first established in Britain in the mid-1960s (Brown et al., 2003). Credit unions are mutual financial organisations, which offer members loans out of the pool of savings or shares built up by members. The lower costs of credit union loans are a major argument of the government for promoting credit unions as part of its financial inclusion strategy. Although more expensive than mainstream credit providers, credit union loans are relatively affordable to low-income consumers, particularly when compared with the interest rate charged by sub-prime lenders. By law, credit unions are restricted to providing loans at an interest rate of one percent a month or less (around 12.7%APR); though in spring 2006 the interest rate cap was raised to two percent per month (around 26.8% APR). As a consequence, credit unions are able to extend their lending activity to those who are considered a higher risk such as members without savings or on low incomes. In addition to their credit facility, credit unions are understood to encourage the saving habit of members and connect people to ‘more mainstream financial opportunity’ (HM Treasury, 2004: 34).

It was realised early on by the government that credit unions, despite their potential, needed to grow. This was particularly true for the professional management of credit unions, their capacity to offer a wider range of services, the need for enhanced regulation, member care and protection, and delivery of appropriate services to areas of need (HM Treasury, 1999a, c). As a result, a range of measures was introduced to strengthen individual credit unions and the movement itself. One of the key suggestions

⁶⁷ This has been previously suggested by PAT 14 and other authors (Barton, 2002; Collard and Kempson, 2005).

⁶⁸ In the context of the research, third-sector lenders (including the Social Fund) are also referred to as ‘alternative’ lenders as opposed to mainstream and sub-prime credit providers.

of PAT 14 was to establish a central service organisation which develops credit unions, which had no regulatory standards at the time. In response, in 2002, credit unions came under the regulation of the Financial Services Authority (FSA): the regulator of all providers of financial services in the UK. One of the things which came out as a result of the new regulatory regime was that restrictions on common bond areas⁶⁹ were relaxed. This was sought by the government to increase both the number and diversity of credit union members and to make them economically stronger. Alongside credit unions, other third-sector lenders, particularly Community Development Finance Institutions (CDFIs)⁷⁰ and social housing providers are acknowledged by the government to play a role in the provision of affordable credit and other financial services such as savings and home content insurance. For example, it is argued that social landlords are in a good position to target this group since a large number of people without mainstream banking services are social tenants, (see for example, HM Treasury, 2004). However, the credit union development has, by far, received most attention in promoting access to affordable credit.

4.3.3 Savings and Assets

Acknowledging research that highlights the lack of success of tax efficient saving among lower income households (see for example, IPPR, 2003), the government has introduced two new saving initiatives, targeted specifically at lower income households; namely the Saving Gateway and the Child Trust Fund (CTF) (HM Treasury, 2001b). These are not discussed here in detail.⁷¹ However, what is important is the assumptions that inform the government's savings policy. Based on the theorem of asset-based welfare, which argues that the ownership of assets constitutes an important part of individuals' well-being and is a key element of poverty eradication (Sherraden, 1991),

⁶⁹ In contrast to banks, credit unions share a common bond. This can be based on a geographical area, associations such as religious groups, or places of employment. Most recently, plans have been announced to allow credit unions to form alliances with other credit union, employers and housing associations (HM Treasury, 2007a).

⁷⁰ CDFIs are not-for-profit community-based financial organisations. They provide lending and investment facilities at competitive, but generally higher rates of interest than credit unions (usually between 15% and 30%) (HM Treasury, 2004).

⁷¹ Specific savings initiatives, such as the Saving Gateway and the CTF, are not a focus of this research; more so as the Saving Gateway is currently not offered on a mainstream basis. Rather individuals' access to savings accounts and their use of these in general are discussed.

this strand of the government's financial inclusion strategy aims to improve individuals' wealth and financial well-being through building up savings and assets. This aspect of the government's policy is generally concerned with the use of low-cost savings and investment products (HM Treasury, 2004), as opposed to saving money informally, for example, at home. Having savings and assets is further thought to have an independent effect on individuals' life chances (HM Treasury, 2001a) and thus social inclusion more generally. For example, in its consultation paper *Helping People to Save* (2000), the government highlights the importance of savings in providing people with independence, security and comfort (HM Treasury, 2000: 1), a thread which is followed up and further developed in later policy texts.

The way to increase savings and assets is twofold: firstly, through the design of specific saving products, such as the Saving Gateway accounts, which offer matched savings with additional contributions paid by the government (HM Treasury, 2008b); and secondly through financial education to promote positive attitudes towards accumulating funds. However, the latter was only promoted at a later point in the government's financial inclusion strategy.

4.3.4 *Home Contents Insurance*

The report of PAT 14 mentions a range of insurance products from which low-income households may benefit such as life assurance. Nevertheless, the principal focus of the government in terms of insurance exclusion is on the provision of home contents insurance, particularly through Insurance-With-Rent (IWR) schemes. IWR schemes are not a new idea. They were first introduced by local authorities about 30 years ago (Collard, 2007). One perceived advantage of IWR by the government is the low costs of IWR schemes in comparison to conventional insurance products from the high-street. In addition, IWR targets social tenants, who are most likely to experience financial exclusion and often live in areas where crime rates and deprivation levels - and therefore insurance premiums - are likely to be higher (Whyley et al., 1998). However, despite these apparent advantages of IWR, PAT 14 and academics had some reservations regarding IWR (see for example, Collard, 2007; Hood et al., 2005). In particular the low take-up of these schemes, the discrimination against some groups (for example those with rent arrears) and high premiums in high-crime areas were criticised.

Overall, insurance exclusion had received relatively little attention until Westminster's 2007 financial inclusion action plan (HM Treasury, 2007a) brought the issue back onto the political agenda. Although the report of PAT 14 mentions a range of insurance products from which low-income households may benefit, promoting home contents insurance remains the focal point in this area of financial exclusion. In addition, the government adheres to the promotion of IWR despite criticisms voiced both within government and in academia. However, as a reaction to these, the government is now considering measures for risk reduction (HM Treasury, 2007a), which implies a greater acknowledgement of responsibility on side of the government and focus on preventive measures.

4.3.5 Summary

The first phase of the government's financial inclusion strategy saw the development of new and the promotion of existing financial products through both established and new delivery channels. This phase concentrated largely on the most visible part of financial exclusion; namely people's access to financial products rather than their ability to make good use of these. The areas of banking, credit and savings are central to the initial government's financial inclusion strategy, whereas others, such as insurance, have received relatively little attention since the recommendations made by PAT 14. The work of the third sector, particularly credit unions, is central in promoting the government's key policy areas of credit and savings; whereas the banking sector and the post office are pivotal in bringing banking inclusion forward. This demonstrates that partnership working is an important aspect of the government's financial inclusion strategy, not only of this phase but at large. However, it is somewhat surprising that the banking sector, despite its huge potential, does not play a greater role in the provision of appropriate credit products, even more so as there is evidence that many low-income consumers use mainstream credit, but may find that this source is not appropriate. In addition, it will be shown later that the government has to take a more active role. For example, financial exclusion was identified to be both a cause and consequence of social exclusion in policy texts. However, policies which aim to target the wider social and economic disadvantages experienced by financially excluded individuals were neither included in this phase of the government's financial inclusion strategy nor later. In addition, the approach was criticised for lacking system and joined-up working in the literature (see for example, Regan and Paxton, 2003). Ultimately, phase one of the government's financial inclusion policy reflects its limited understanding of financial

exclusion as lacking access to financial products at the time. This is still evident in the second phase although the government's approach has widened to some extent, as is discussed below.

4.4 Policy Responses to Financial Exclusion - Phase II

The second phase of the government's financial inclusion strategy, overall, is characterised by a more joined-up approach towards tackling exclusion. Most importantly, this saw the establishment of the Financial Inclusion Taskforce in February 2005. Similar to the SEU, the aim of the Financial Inclusion Taskforce is to monitor progress on the objectives the government has set out and make recommendations for future policies (Financial Inclusion Taskforce, 2008). Furthermore, a central Financial Inclusion Fund was established to support all financial inclusion activities. The Treasury's financial inclusion action plan *Promoting Financial Inclusion* (HM Treasury, 2004) underpins the new, more systematic approach of the government towards tackling financial exclusion. There, the government sets out three priority areas where it wishes to tackle financial exclusion: banking, credit and money advice. While this approach meant the continuation of previous policies in the area of credit, banking and savings, which were discussed above, it also entailed the introduction of new initiatives in particular in the area of money advice and financial education.

The provision of money advice and financial education constitutes a different dimension of the government's financial inclusion strategy, which hitherto had concentrated upon product development and delivery. In contrast, financial advice and education target demand-side barriers and implies a greater concern for individuals' difficulty in understanding financial services and effectively using financial products. This reflects also a change in the understanding of financial exclusion that has taken place in the literature, as discussed in Chapter 2.

As PAT 14 suggests: "[b]etter understanding of banks and other financial services enables people to make informed choices, so helping to break self-exclusion barriers, and increases the chances of their successfully managing the products they acquire" (HM Treasury, 1999a: 62). Furthermore, the PAT suggests that disadvantaged people are likely to have 'exceptional needs' (HM Treasury, 1999a: 62). The government's financial capability strategy is, therefore, particularly concerned with the financial

capabilities and financial knowledge of low-income households, which are assumed to be lower than those of the general population. This assumption does not bear up under the findings of the FSA's own financial capability baseline study, conducted in 2005 (Atkinson et al., 2007; Atkinson et al., 2006). The final results of the baseline survey suggest that individuals living on low incomes are not necessarily less financially capable than more affluent people (Atkinson et al., 2006). Despite this finding, the government continues to focus their financial capability strategy on those with low incomes.

While financial education is needed in schools, according to PAT 14, money advice is necessary at 'turning points in people's lives', for example when moving into work (HM Treasury, 1999a). This describes *when* money advice and financial education is needed, but does not define the two concepts. However it seems that the term 'money advice' has shifted from its general meaning to a more narrow understanding of money advice as 'debt advice'. Therefore, while financial education is mainly understood as a means to increase consumers' awareness of financial products and services, money advice in the narrow sense is largely concerned with tackling over-indebtedness. This overlooks the fact that money advice generally involves more than immediate reaction to clients' debt problems, as Phipps and Hopwood Road (2006) suggest.

In addition, the second phase of the government's financial inclusion strategy saw greater emphasis on the concept of over-indebtedness. The basic assumption of the government is that those who are most likely to be financially excluded - poorer households - are also more likely to experience over-indebtedness (HM Treasury, 2004). These households are thus in greater need for money advice, as the government argues. Although the two concepts are linked, as explored in the previous chapter, they should be nevertheless treated separately in order to be able to distinguish between cause and consequence of financial exclusion. In the following, initiatives in the areas of money advice and financial education are reviewed.

4.4.1 Money Advice

The key policy initiatives in the area of money advice focus around increasing the capacity of money advice services in areas of high financial exclusion (HM Treasury, 2004). Funding was approved in 2006 for a range of money advice projects in England and Wales. In Scotland, funding has been provided not only for recruiting new staff but

also to improve the quality of money advice services, for instance by raising standards in money advice training and development. Similarly, the Scottish Executive provided further funding to support money advice pilot projects that targeted specifically the needs of people from marginalised or vulnerable groups and communities.

4.4.2 *Financial Education*

The FSA has taken a central role in promoting financial education. Alongside efforts of the FSA to improve national levels of financial capability, for instance in schools or at the work place, more focussed financial education projects were set-up by the government in England and Wales and in Scotland by the Scottish Executive. These projects were based in CABx and aimed to deliver financial education to hard-to-reach communities and a range of different target groups, such as single parents and those with mental health issues.

4.4.3 *Summary*

Overall, this phase of the government's financial inclusion strategy continued to promote and develop financial products in the areas of banking, credit and savings. While interest in insurance exclusion has significantly declined since the first phase, interest in targeted savings products to encourage fund accumulation among particularly low-income households has become stronger as shown for instance through the introduction of the CTF in 2005. In addition, the government's approach has widened to take into account some demand-side barriers, particularly in the form of increasing access to money advice and financial education. This is clearly a positive development in comparison to previous financial inclusion initiatives which centred mainly on product development. The interest of the government in consumer education as well as savings needs to be seen in the context of increased individual responsibility to make provision for the future, for instance for retirement. This is an even stronger theme in the government's current financial inclusion policy.

4.5 Policy Responses to Financial Exclusion - Phase III

One important change in the government's financial inclusion policy after Gordon Brown assumed office in June 2007 is the acceptance of a broader definition of financial in-/exclusion, reflecting the complexity of the problem. Although the practical and emotional concerns of low-income consumers with regard to *using* banking services had

been acknowledged before (HM Treasury, 2004: 19-20), the difficulty of utilising accounts as part of the financial exclusion concept is, for the first time, explicitly stated in the Treasury's report *Financial Inclusion: An Action Plan for 2008-11*. In the document, financial inclusion is defined as:

everyone having access to appropriate financial products, and the confidence and capability to use them to make a positive difference to their lives (HM Treasury, 2007b: 3).

This understanding of financial inclusion, which is closely linked to suggestions made by the Treasury Committee (House of Commons Treasury Committee, 2006a), reflects also a new policy strategy whose focus is on the demand-side of financial products rather than on product development and promotion as was previously the case. The rationale is that even if suitable financial products exist consumers may be unaware of it or the benefits these products can bring. Furthermore, according to the Treasury, lack of demand for financial products arises because people lack financial capability in order to make well-informed choices (HM Treasury, 2007b). Already in 2000 the BBA noted that:

merely supplying a suitable product will not be effective if there is little demand for it, either because people do not know it exists or because the concerns [e.g. difficulty in controlling money] above stop them applying for it. (...) Making basic accounts more available will not promote financial inclusion unless people without accounts start to use them - if the supply problem is cracked then the next issue is to stimulate demand (BBA, 2000: 33).

The promotion of financial literacy, developed in partnerships, is particularly seen to play an important role in increasing demand (BBA, 2000). The government implemented this approach with the launch of its *Now Let's Talk Money* campaign in 2007. The campaign seeks *inter alia* to raise awareness about the products available among intermediaries with whom financially excluded people have regular contact such as social landlords and voluntary organisations (HM Treasury, 2007a). In addition, it aims to encourage individuals to obtain information about financial products themselves and to use the financial advice and products available (*ibid.*). This aspect of financial capability - choosing appropriate financial products - was identified as the area of

greatest concern in the FSA financial capability baseline survey (Atkinson et al., 2006). Government action in this area would seem therefore to be justified.

4.5.1 Summary

Overall, the change in policy from improving product design and service delivery to promoting initiatives that increase financial knowledge and help consumers use financial services is an important one since it implies a stronger focus on demand-side barriers, which is ultimately reflected in the government's conceptualisation of financial inclusion. Although a positive step, and one which is likely to further increase access to available products, the provision of tailored advice and information does not necessarily entail active usage of available financial products, as the evaluation of the policy initiatives in the next part of the chapter will demonstrate. It will also not tackle the underlying causes of financial exclusion, particularly low income or more complex barriers such as the role of feelings of mistrust of financial institutions. Ultimately, it is implied that the need for financial education is greater for low-income consumers, which tends to downplay the real issues behind poor money management in low-income households; namely low income. Rather the government shifts responsibility towards individuals without ensuring that they have not only the knowledge and skills, but also the *financial means* to make informed decisions about personal finances.⁷²

4.6 Policy Responses to Financial Exclusion in Scotland

The setting of this study is Scotland. However, the financial inclusion policy and strategy of the Scottish Executive, as the Scottish government was called before its renaming in September 2007⁷³, will not be discussed in the same detail as those of Westminster. The main reason for this is of a practical nature. Under the terms of the 1998 Scotland Act, the Scottish parliament has the power to pass legislation only on devolved issues, while any powers remaining with the government at Westminster are reserved; these are mainly matters that have a national or international impact, such as

⁷² In this context, some policies can be even counterproductive. For example the government's emphasis on asset-based welfare and social security rules on means-tested benefits.

⁷³ Throughout the study, the previous name of the government is retained when referring to policy initiatives that were initiated under the jurisdiction of the Scottish Executive.

the social security system, regulation of the financial services, and foreign affairs and defence (Poole and Mooney, 2005). Thus matters which are most relevant for tackling social and financial exclusion cannot be legally addressed by the Scottish parliament. Partly because of this arrangement of political power, there is often convergence on key issues of financial exclusion between Westminster and Scotland. The continuity of political leadership with New Labour in power in Westminster and dominant in Scotland, though in coalition with the Liberal Democrats till the Scottish election in May 2007, made divergence further unlikely.

In Scotland, financial inclusion initiatives are part of the broader social inclusion and community responsibilities of the government. While promoting social inclusion was given priority from the outset⁷⁴, financial inclusion policies were only adopted at a later stage. The first reference to financial exclusion is made in the Scottish Executive's social inclusion strategy report *Opening the Door to a Better Scotland*, which was published in 1999. There, the development of the credit union movement as part of the social inclusion agenda is discussed. However, it was not until the Executive's community regeneration statement in 2002 that financial exclusion is explicitly mentioned as a policy strategy. One reason for the later implementation of adoption of financial inclusion policies is possibly the early focus of the UK government on the development and delivery of financial products and credit union legislation: areas in which the Scottish government lacks legislative power. Ultimately, the centrality of financial exclusion as a policy issue in Scotland was confirmed in the Scottish Executive's *Closing the Opportunity Gap* (CtOG) approach in 2004 and in its *Financial Inclusion Action Plan*, which was published in January 2005 (Scottish Executive, 2005a).

4.6.1 The UK and Scottish Financial Inclusion Strategy in Comparison

In practical terms, financial inclusion policy is framed in similar terms to that in Westminster. Firstly, the Scottish approach highlights the promotion of financial inclusion as part of a wider social inclusion/social justice policy. In detail, it forms part

⁷⁴ Already in December 1997 – two and a half years before the first Scottish election – a social exclusion network was established by the Secretary of State for Scotland.

of the Scottish Executive's overarching aim 'to tackle the inequalities between communities by narrowing the gap between the disadvantaged and everyone else' (Scottish Executive, 2002: 7). Financial inclusion then is argued to help to:

- prevent individuals or families from falling into poverty;
- provide routes out of poverty; and
- sustain individuals or families in a lifestyle free from poverty (Scottish Executive, 2005a: 6).

Secondly, credit unions and the third sector in general play an important role in solving the problem of credit exclusion; though the Executive made a stronger reference to the role of the private financial sector in making affordable credit available to low-income consumers (Scottish Executive, 2003a). Thirdly, tackling over-indebtedness is embedded within the financial inclusion concept, including the perception of money advice and financial education as both reactive and preventive tools to over-indebtedness. This is clearly shown in the financial inclusion statement of the Scottish Executive. In terms of promoting financial inclusion the aims is:

by 2008 to increase the availability of appropriate financial services and money advice to low income families to reduce their vulnerability to financial exclusion and multiple debts (Scottish Executive, 2005a: 6).

While those initiatives that fall under the jurisdiction of Westminster, particularly the areas of banking, savings and credit, are supported by the Scottish government, others where it has a greater sphere of influence are conducted in a similar way as is, for example, evident in the Scottish Executive's targeted money advice and financial education projects, which replicated similar initiatives introduced in England. Overall, Scotland's influence in promoting financial inclusion is mostly visible in the financial support of credit unions, money advice services and agencies that promote financial education. Alongside funding, practical support is given to credit unions in the form of financial health checks, business planning and compliance training to meet FSA regulations. While the Scottish Executive's financial inclusion strategy bears a strong resemblance to that of Westminster, the evaluation of individual initiatives is often more thorough in terms of exploring the qualitative impacts of initiatives on service-users lives (see for example, Gillespie et al., 2007). These are discussed later.

The use of a more positive language ('inclusion' rather than 'exclusion') in terms of capturing the phenomenon of social exclusion is evident in Scotland, as suggested in the literature (Fawcett, 2003; Mooney and Poole, 2004; Scott et al., 2005; Stewart, 2004). In *Opening the Door to a Better Scotland* and subsequent documents, such as the *Social Justice* reports (Scottish Executive, 1999, 2000, 2003b), there is a greater stress on inclusion, partnership, equality and social justice than in comparable documents produced in Westminster (Brown et al., 2002; Scott et al., 2005). In contrast, the concept of financial exclusion was initially captured in terms of 'exclusion' and, like in Westminster, understood in the narrow sense as:

having [no] access to financial services or products and being worse off as a result (Scottish Executive, 2002: 28).

Therefore, the difference to Westminster in terms of language is less clear when looking at the concept of financial exclusion. However, in contrast to Westminster, the Scottish Executive was relatively quick to adopt a more comprehensive definition of financial *inclusion*. The Scottish Executive's *Financial Inclusion Action Plan*, published in January 2005, defines financial inclusion as:

access for individuals to appropriate financial products and services. This includes people having the skills, knowledge and understanding to make best use of those products and services (Scottish Executive, 2005a: 4).

This stands in contrast to the definition used in the Treasury's report *Promoting Financial Inclusion*, published just one month earlier. Although referring to financial inclusion in the title, financial exclusion rather than inclusion is defined (HM Treasury, 2004). In addition, the report refers to the concept as lacking access to financial services rather than in the broader sense adopted by the Scottish Executive.

4.6.2 The 2007 Scottish Election

The 2007 Scottish election saw a significant change in Scotland's social and financial inclusion strategy. In November 2007, the new Scottish National Party (SNP) government launched its economic strategy. Similar to notions of the 'trickle down' effect of economic growth which will automatically benefit all in society, the new

Scottish government sees ‘sustainable economic growth’ at the core of achieving a healthier, smarter, wealthier, fairer, greener, safer and stronger Scottish society (Scottish Government, 2007). Promoting financial inclusion has been rephrased and put into the context of improving the social economy of Scotland rather than being a policy area in its own right. For example, promoting financial inclusion is not specifically mentioned as a policy strategy in the Scottish government’s economic strategy report and only discussed briefly in others (Scottish Government, 2008a, c). It is in the context of this new approach that financial inclusion initiatives are continued to be funded, such as support for credit unions and financial education initiatives (Scottish Government, 2008b), which highlights the ongoing commitment of the Scottish government to promote financial inclusion.

4.7 Evaluation of Financial Inclusion Initiatives

The central aim of this research is to gain a better understanding of the links between improved financial inclusion and social inclusion. One way of achieving this is by exploring the impact financial inclusion initiatives have on people’s lives. Alongside quantitative evidence of progress, this part of the chapter reviews studies that are more concerned with the qualitative outcomes of financial inclusion initiatives in order to explore any links between improved financial and social inclusion.⁷⁵ The key points of the policy analyses will be discussed for each financial inclusion area in turn.

4.7.1 Banking

Data from the FRS show that the proportion of households without a current account has not significantly fallen since the government’s universal banking strategy and, moreover, has not gone down since 2004/05 (Figure 4.1).⁷⁶

⁷⁵ If not otherwise stated publications will be accounted for up to July 2008.

⁷⁶ Data on progress towards reducing the number of households without bank accounts exist for example in the form of the MPSE series. However, their analysis of unbanked households includes savings or investments accounts, which are treated separately in the context of this research.

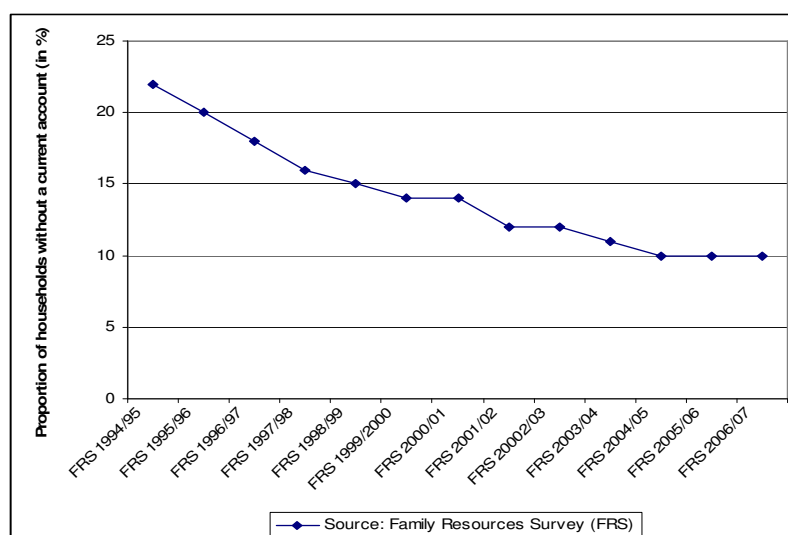


Figure 4.1 The Proportion of Households without a Current Account

One reason for the slow progress in increased access to bank accounts may be the inclusion of data from Northern Ireland only since the FRS of 2003/04 as Northern Ireland generally shows the highest level of banking exclusion in terms of lacking current accounts in the UK. Another explanatory factor is the increase in the proportion of households having basic bank accounts or POCAs as alternatives to ‘ordinary’ banking products. Data on basic bank account ownership and POCAs were included in the FRS from its 2003/04 and 2005/06 sample respectively. These show an increase of basic bank account holding from three per cent in 2003/04 to seven per cent three years later; whereas seven per cent of households had POCAs in 2005/06 and 2006/07. On the individual level, the government set a shared goal with the main clearing banks in 2004 of halving the 2003 total of 2.8 million unbanked adults (HM Treasury, 2007b). However, two years later, nearly two million adults were still without a bank account (HM Treasury, 2007b), and little progress has been made subsequently (HM Treasury, 2008a).

Overall, this suggests a only moderate impact of the government’s universal banking programme in terms of access. It is particularly the take-up of POCAs which has been greater than anticipated by the government, with 4.3 million customers regularly collecting their benefits through a POCA in 2006 (House of Commons Treasury Committee, 2006a), and pensioners, single parents and low-income households most likely to have opened one (DWP, 2007a). This suggests that particularly those social groups to which basic bank accounts are promoted are least likely to have opened or use

one. Instead, they prefer the POCA despite its very limited functionality. This is widely acknowledged in the literature. In fact, many of those who have opened POCAs do also possess a bank account (around 70%, according to DWP figures) (cited in CAB, 2006b). This suggests that people choose POCAs over bank accounts rather than opening one as the only available alternative. However, this choice is influenced by problems with mainstream banking. Many POCA holders, particularly elderly users, perceive the post office network as more user-friendly than banks (Collard et al., 2001; Kempson et al., 2004a) hence preferring the use of POCAs to bank accounts (paired with a lack of awareness that some basic bank accounts are available at post offices). Ultimately, the post office network is significantly larger than that of banks (Hayton et al., 2007) and as such more accessible, particularly for people who live in rural or deprived areas with no access to a local bank or building society branch. The exclusive use of the post office network for banking, which is supported by the government's financial inclusion approach, however, reinforces processes of financial exclusion (Midgley, 2005), since those who manage finances without bank branches do not have contact with mainstream financial institutions, which can be a source of information about financial products and may help disadvantaged consumers to overcome mistrust of mainstream financial providers. Given the centrality of the post office network within the government's banking strategy Westminster's recent proposals and actions on significantly reducing the post office network (see for example, DTI, 2006) seem somewhat surprising. More so as poor, outer urban communities with a heavy reliance on the post office network were most affected by the government's first significant closure programme (O'Reilly and Webber, 2007).

Access to bank accounts: For those without a bank account there is furthermore evidence that barriers to opening one still exist, particularly in the form of apparent lack of sufficient ID under money laundering regulations. In fact, despite recent changes in money laundering regulations (Table 4.1), problems with satisfying identification requirements are still one of the most significant barriers preventing access to basic bank accounts (House of Commons Treasury Committee, 2006a); though some more flexible interpretations of the regulations have been observed (FSA, 2007b). In addition, an extensive body of research suggests that many banks are still reluctant to promote basic bank accounts despite its coverage in the Banking Code and offer basic bank account holders poorer services (see for example, BCSB, 2004, 2005, 2007; Clark et al., 2005; Quinn, 2008). According to the Banking Code Standards Board (BCSB), which

monitors and enforces compliance with the Banking Code, some bank branches still fail to display or give information about basic bank accounts or even dissuade customers from opening an account (BCSB, 2005). Overall, this suggests that the voluntary agreement might not work in its current form and more needs to be done to ensure compliance of banks with the Code.

Use of bank accounts: Data on how people *use* banking products offer some evidence on the wider impact of gaining access to banking services. Research has repeatedly pointed out that the impact may be weak, as indicated by the high proportion of people that make little or no use of basic bank accounts (BMRB Social Research, 2006; Change, 2006; Collard et al., 2003a; Kempson et al., 2004a; NCC, 2005b). The usage of automated banking in particular is low, with many basic bank account holders still preferring a cash budget and being in favour of familiar methods of money management such as paying bills through the post office (BMRB Social Research, 2006; Collard et al., 2003a; O'Reilly, 2006). Some bank account holder also lack knowledge about banking features, as several studies point out (Change, 2006; Devlin and Gregor, 2008; Millward Brown, 2006), or are afraid of incurring bank charges on defaulted direct debits (Change, 2006; NCC, 2005b; O'Reilly, 2006). This last point is an important one. It suggests that access to a bank account alone does not entail meaningful financial inclusion because account holders can find their account difficult to use. It also contradicts the argument of PAT 14 that 'individuals can have the confidence to use a [basic] bank account without fear of incurring charges' (HM Treasury, 1999a: 51) since charges can occur when there are not sufficient funds in the account for covering outgoing automated payments. These could be substantial for somebody on a low income. In 2005, many banks charged more than £30 for unpaid direct debits, with some charging £38 or £39 respectively (FSA, 2005). As a consequence of these difficulties with using bank accounts, it is not surprising that few of the currently unbanked believe that the accounts on offer will make any difference to the way they manage their money and feel that they can operate outside the banking system without problems (NCC, 2005b).

That the government's banking inclusion approach has only been moderately successful in terms of improving banking inclusion hitherto can be explained by a lack of understanding and a failure to addressing the underlying causes of banking exclusion. As a consequence, people choose not to open or use accounts and continue with the

habit of withdrawing all their money at once and handling finances in cash since this is perceived as the safest method of handling money when living on a low income. In contrast, research on the positive effects of banking inclusion, which is scarce and relatively recent, suggests that becoming banked can act as a 'gateway' to other financial services, including to current (through upgrading basic bank accounts) and savings accounts (Devlin and Gregor, 2008). Furthermore, research highlights that banking inclusion increases confidence in financial matters (Devlin and Gregor, 2008; Millward Brown, 2006), helps with money management (Change, 2006; Jones, 2008a) and improves people's well-being more generally (Devlin and Gregor, 2008; Jones, 2008a). There are also arguments that having a bank account may increase people's employability (Jones, 2008a). However, the causality of the relationship is not clear. Moreover, there is evidence that changes in banking inclusion are likely to be influenced by consumers' changes in personal circumstances, particularly gaining employment, rather than vice versa. Therefore, more research needs to be done in order to explore these links more systematically.

Summary: The data above suggest that, overall, having a basic bank account does not guarantee equal participation and thus financial inclusion, not only because of the generally more limited features of basic bank accounts in comparison to ordinary accounts, but also because account holders themselves make little or no use of available banking facilities such as direct debit. This is even more evident in the case of POCAs: a fact which is recognised by the government when stating that POCAs 'do not amount to full financial inclusion' (HM Treasury, 2004: 24) because of the very limited functionality of these accounts. It is thus unclear how POCAs can serve as a 'stepping-stone' to financial inclusion or make people more familiar with methods of electronic money management, as the government claims in its first financial inclusion action plan (HM Treasury, 2004). Moreover, Midgley (2005) argues that the government's universal banking strategy underpins a separate, 'second-class' banking system or 'a *hierarchy* of customers and service provision' and produces 'increased *nuances of polarisation*' (Midgley, 2005: 280, original emphases). It also stigmatises people who do not have an 'ordinary' account and construes them 'as being financially and socially different' to the rest of society which justifies their different treatment by the banking sector (Midgley, 2005: 280-281). In fact, some research demonstrates that the limited features of basic bank accounts such as the lack of a full operational debit card can be a cause of frustration for account holders (Devlin and Gregor, 2008). There are, therefore,

a range of arguments that suggest that banking inclusion, in its current form, does not account for full inclusion. With these arguments in mind it is also hard not to argue that the government's banking strategy was, at least partly, driven by its incentive to save costs through the electronic transfer of benefits rather than promoting financial inclusion. This is also addressed in the literature (Kenway, 2007; Regan and Paxton, 2003).

The next policy area that is reviewed below is credit. As pointed out above, two sources of credit are of particular importance for the government's financial inclusion approach: the Social Fund and credit unions. These are discussed in turn below.

4.7.2 The Social Fund

Identified literature about the Social Fund predates the most recent reforms to the Fund in April 2006. However, given the demand for the Social Fund on the side of benefit recipients, a major point of criticism is the continuous low loans budget of the Fund. In addition, it is argued that more needs to be done in order to point rejected applicants to alternative affordable sources of credit since being rejected from the Fund can have significant consequences for people's borrowing behaviour in terms of using sub-prime lenders (Collard and Kempson, 2005; House of Commons Treasury Committee, 2006b; Legge et al., 2006). Although the loans budget has increased in recent years, the potential of the Fund to function as a feasible alternative to more expensive sources of credit has not been utilised as yet. This is also pointed out by the Treasury Committee when stating that: "the Social Fund does not punch its weight in terms of the financial resources the Government puts behind it" (cited in House of Commons Treasury Committee, 2006b: 34). Those who apply for the Social Fund are very vulnerable in terms of their socio-economic status. Although further reforms are likely to increase the capacity of the Fund to lend to poor people, these fail to tackle the underlying causes of low-income households' need to borrow. The main one of these is the inadequacy of benefit levels. Financial inclusion, in this sense, can only help people to cope with poverty rather than provide a route out of it, more so as loan repayments are directly deducted from benefits; thereby further reducing benefit income and increasing the likelihood of future borrowing. Furthermore, little is known about the impact of Social Fund loans and grants on successful applicants, with research largely focussing on improving its operation and scale.

4.7.3 Credit Unions

The new regulatory regime under the FSA has offered credit unions the opportunity to grow and expand the scale and scope of the services they are able to offer to members (McKillop and Wilson, 2003) and also encouraged the development of larger, area-based credit unions (Brown et al., 2003). Since credit unions came under the new regulatory regime, credit union membership has increased by 29 per cent: from 425,365 adult members in 2002 (FSA, 2003) to 548,389 adult members in 2006 (FSA, 2007a). Given that membership was only 35,000 in 1986 (Berthoud and Hinton, 1989), this is considerable. While credit union membership has grown, the number of credit unions decreased (FSA, 2003, 2007a), as Collard (2007) suggests, largely as a result of mergers following the introduction of the new regulatory framework in 2002. Overall, the credit union movement has a stronger tradition in Scotland, with 123 credit unions holding more than one third (189,317) of all adult credit union members in 2005 (FSA, 2007a).

Despite the recent growth in the credit union membership base the movement has remained small in terms of scale in comparison to other countries such as Ireland (Byrne et al., 2005; Byrne et al., 2007) and the US (Palmer and Conaty, 2002). Furthermore, the capacity of credit unions to serve the low-income-consumer market is limited in comparison to the far greater potential of sub-prime lenders. For example, research conducted by the Competition Commission (2006) into the competitiveness of the home credit market notes that the role of credit unions is small in putting competitive pressure on home credit providers, with the market leader Provident Financial being almost as important a source of credit as the Social Fund and the credit union movement combined. There are several reasons for this. First of all, not all credit unions are equipped, willing and experienced enough to serve the needs of the most vulnerable consumers such as customers of illegal lenders (DTI, 2007). In addition, despite the successful removal of some illegal lenders from the market this had little effect on users' borrowing behaviour: very few users of illegal lenders made contact with advice agencies or credit unions, choosing instead familiar and accessible options such as illegal lenders or home credit companies (DTI, 2007). This is confirmed by other research, which finds that credit union members often (continue to) use other types of credit, including sub-prime credit (Byrne et al., 2005; Byrne et al., 2007; Collard and Smith, 2006; Whyley et al., 2000), largely because of the familiarity of this source of credit (Collard and Kempson, 2005; Collard and Smith, 2006). Overall, this suggests the importance of tradition and routines in influencing individuals' borrowing

behaviour, but also raises questions about how the use of credit union loans influences borrowing from other types of credit and thus financial inclusion. The continuous use of other sources of credit also needs to be understood against the background of the possibility that credit unions may not meet the borrowing needs of their members, for instance because these already have a loan with the credit union (or defaulted on repaying credit) or need to access credit quickly and easily (Byrne et al., 2005; Byrne et al., 2007; Collard and Smith, 2006). This suggests that credit unions are not always an appropriate tool for tackling credit exclusion and further research is necessary to explore how people use available credit union loans.

In contrast, the same and other studies find that some credit union members have ceased to use high-interest credit as a direct result of becoming a credit union member (Collard and Smith, 2006; Jones and Barnes, 2004; Whyley et al., 2000). Therefore, for some members, credit unions can play a significant role in providing financial products and services that would otherwise be inaccessible or more expensive. Credit union loans are not only an appropriate financial product for low-income consumers because of the lower interest rate compared to sub-prime credit, but also because of their lending strategy, which generally bases loans on members' savings or shares and is thus more responsible. However, changes in personal circumstances also play a role in explaining the fact that consumers cease to use high-interest credit, as Whyley and her colleagues (2000) point out. Thus the provision of appropriate financial products, such as credit union loans, can only be part of a strategy to promote financial inclusion since other factors, such as living on a constant low income, are significant contributory factors too.

Summary: There is evidence that credit union membership, to some extent, promotes financial inclusion in terms of affordable credit. Although some research highlights the importance of credit for low-income households' money management strategy (see for example, Kempson et al., 1994), it is not clear how access to credit union loans impact on people's lives. In fact, some studies suggest that credit union membership might have only a moderate impact on members' use of expensive credit. These links need to be explored further.

The third policy area that is reviewed here is savings and assets.

4.7.4 Savings and Assets

The evaluation of the two Saving Gateway pilots, launched in 2002 and 2005 respectively, shows that specific savings products do, to some extent, encourage active usage of these accounts. In their detailed analyses of the first and second pilot, Kempson et al. (2005) and Harvey et al. (2007) demonstrate that the Saving Gateway improved people's attitude to saving and saving behaviour. This was particularly true for those who had not saved prior to the pilots. Having some savings generally gave new savers a sense of empowerment and control as well as a sense of security (Harvey et al., 2007). This is an important finding which points to the wider impact of financial inclusion policies. Similarly, the evaluations of financial education projects in England and Wales and Scotland report that financial education had an impact on respondents' financial knowledge and behaviour, including a greater understanding of saving strategies, ability to budget and save (see for example, CAB, 2006a).

Despite the positive effects of the initiative some constraints are identified. Most importantly, low income significantly influenced saving activity (Kempson et al., 2005). Moreover, those on the lowest income were more likely not to make any further contributions to their account after the pilots finished (Harvey et al., 2007); thereby challenging assumptions of the government that through the availability of specifically designed savings accounts longer term saving activity can be promoted amongst those on the lowest income. Moreover, it challenge the centrality of this approach in the context of improving individuals' financial well-being and poverty eradication since income impedes use of savings accounts. The evaluations of the CTF show similar results (Bennet et al., 2008; Initiatives on Financial Security, 2007). In terms of saving among credit union members, findings are ambiguous: while Jones (2006) reports an increased growth rate of assets among members, Collard and Smith's (2006) study suggests that, on the individual level, credit union membership does not generate new saving or eradicate informal saving methods for many members.

Summary: Overall, the findings point to the fact that specifically designed products such as the Saving Gateway or the CTF do not promote financial inclusion in terms of use when income of account holders is too low to allow for savings activity. In this context it is rightly argued in the literature that developing specific savings products is only one of other factors which affects wealth accumulation (Rowlingson et al., 1999). Improving people's financial situation and thus their ability to save might

achieve better outcomes in terms of savings inclusion (Emmerson and Wakefield, 2001, 2003; Kempson, 1998b; McKendrick et al., 2007; Sodha and Lister, 2007). Evidence on the impact of credit unions on savings, which is generally sparse, shows, again, that the existence of an apparent appropriate financial product does not necessarily lead to meaningful use. Financial education, which is discussed in detail later, can encourage a change in individuals' saving attitude and behaviour, as the evaluations of financial education projects suggest. However, these reports lack detail so that some of the key questions asked in this study are not sufficiently answered, such as how a change in saving behaviour occurs and with what impact for the individual. Unlike other analyses of policy initiatives, some of the data above make some references to the impacts of financial inclusion, including gaining a sense of empowerment and control. However, less is known about how these changes can contribute to individuals' experience of social exclusion more generally.

4.7.5 Home Contents Insurance

Little research has been done on the impact of this policy initiative on people's lives other than in terms of the take-up of home contents insurance cover. As discussed in the previous part of the chapter, there has been relatively little support from the government in increasing levels of insurance cover despite it having been identified as a priority by PAT 14 in 1999. Therefore, not surprisingly, levels of take-up have been low, both for IWR and general home contents insurance cover among those living on low incomes (6 et al., 2005; Hood et al., 2005; Kenway, 2007; Vestri, 2007). For example, the latest MPSE report notes that, in 2005/06, about half of the poorest households did not have home contents insurance; the same as a decade ago (Palmer et al., 2007: 130).

The two policy areas discussed below underpin and are sought to support existing financial inclusion policies.

4.7.6 Money Advice

Similarly to other areas of financial exclusion, progress towards improving financial inclusion in the area of money advice tends to be measured in terms of quantity. For example, the government announced that over 500 new advisers have been recruited and trained as part of its specialised money advice projects (HM Treasury, 2007a). However, both governments commissioned independent research to conduct evaluations

of individual money advice projects, which offers greater insights into the impacts of financial inclusion.

The evaluation of the Scottish Executive's targeted money advice projects highlights several links between money advice services, and financial exclusion, over-indebtedness and other aspects of people's lives. Money advice can have an impact on financial inclusion. The research of Gillespie and her colleagues (2007), for example, finds that a minority of respondents who participated in the money advice projects also opened credit union savings accounts. However, they also report that the awareness of cheap forms of credit was still limited and few respondents identified new (cheaper) sources of credit that they would use in the future (Gillespie et al., 2006). This suggests that the impact of money advice (alone) on financial inclusion is often limited. Moreover, Jones and Barnes' (2004) research identifies the availability of alternative affordable credit options, together with changing circumstances and the use of money advice services, as one of the most important factors in changing people's use of high-cost credit. Therefore, money advice services need to be supported by other measures in order to successfully tackle financial exclusion. Overall, money advice services significantly influence other aspects of people's lives, which, in turn, might impact on financial inclusion, including a positive impact on clients' health and well-being, social relations, their confidence with managing money and users' financial situation (Gillespie et al., 2007). Similarly, research of the Legal Services Research Centre (LSRC) in England and Wales confirms evidence of a positive impact of money advice on service users, including an improvement of people's financial circumstances and understanding of their personal finances (Pleasence et al., 2007). The research further suggests that debt advice impacts on people's levels of anxiety, health, relationships and housing stability (Pleasence et al., 2007). However, positive feelings associated with money advice might decrease over time, as the studies of Mannion (1992) and Williams and Sansom (2007) highlight. Therefore, money advice is likely to have an immediate impact on key areas of people's lives that are particularly affected by over-indebtedness, but less so in the longer term.

Summary: Overall, research suggests that money advice has a positive impact on clients' lives and can also impact on financial inclusion. However, despite recent attempts, there is still a lack of systematic research on the effect of money advice services in relation to improving financial inclusion. For example, little is known about

the key processes which impact on financial inclusion and what role the wider outcomes of money advice play in terms of promoting financial inclusion⁷⁷. Some evidence suggests that financial inclusion, in fact, may not play the leading role in improving people's life chances. For example, Gillespie et al. (2007) highlight the positive impact of income maximisation, as part of the debt counselling process, on the well-being of some clients. This raises some serious questions about the impact of financial inclusion in improving people's quality of life, which are addressed by this research.

Another aspect which is closely related to improving financial inclusion is financial education. This element of the government's financial inclusion strategy is discussed in the following.

4.7.7 Financial Education

Evidence on the impact of financial education initiatives largely exists in the form of the (independent) evaluations of the two financial education projects launched in England and Wales (CAB, 2006a), and Scotland (Alexander, 2006). These show that the financial education pilots made a direct and positive impact on participants, including increasing their confidence in managing personal finances and leading to longer term changes of behaviour. In Scotland, an analysis was conducted for a community-based financial education project in Glasgow (Blake Stevenson Limited, 2007). This highlights that the project was beneficial to participants in terms of increased understanding of their financial situation, including debt and budgeting, greater awareness of available financial products such as saving options, and greater feeling of empowerment and personal responsibility in relation to personal finances. The report also notes wider outcomes of the financial education project for some participants such as increased confidence and acquisition of new skills, which have helped to support them, for example, in the transition to employment.

Summary: Again the evaluations of financial education projects demonstrate that this strand of the government's financial inclusion strategy can lead to positive changes in

⁷⁷ For example, over-indebtedness can be an impediment to financial inclusion; hence debt negotiation, as part of the money advice process, can have an impact.

people's lives. In contrast to the provision of financial products only, research suggests that financial education can have a broader impact on people's lives, not only in terms of financial inclusion but managing money in general. However, the processes which lead, for instance, to a greater feeling of empowerment and how improved financial inclusion was achieved by these projects are not clearly identified.

4.7.8 *Summary*

The impact of financial inclusion initiatives is largely measured in quantitative terms by the government, using data from official national surveys or other official sources, such as the annual returns from credit unions to the FSA. This includes, for example, data on credit union membership and the scale of bank account ownership. While these data provide information about access to certain financial products and services, they do not offer information on the wider implications of, for example, access to credit union loans and on whether people actually use financial products. More recently, however, both governments have started to commission independent research to conduct evaluations of individual projects, particularly in the area of money advice, financial education and savings. These evaluations and the analyses of other research tend to place greater emphasis on the impact of policy initiatives on individuals' lives than was previously the case. Nevertheless, some open questions remain regarding the key processes of financial inclusion in relation to financial education and money advice. In addition, while a direct impact between the provision of financial products and financial inclusion in terms of access can be suggested, the wider impacts of having these services is generally not systematically explored in the literature. It is important to explore these links; more so as people do not necessarily need to use these, such as in the case of bank and savings accounts.

4.8 Conclusion

Since financial exclusion entered the political agenda, initiatives to improve financial inclusion have been strongly associated with bringing forward other aspects of social inclusion as well. Promoting financial inclusion, for example, was firmly embedded in the Scottish Executive's CtOG approach which aimed to tackle poverty and disadvantage more generally. Therefore, financial inclusion initiatives aim not only to increase consumers' access to and, with a greater emphasis now, usage of financial products, but overall financial inclusion is sought to create wider positive outcomes for,

particularly, disadvantaged individuals. Most notably this is sought in relation to over-indebtedness, unemployment and poverty.

While this connection between financial inclusion and social inclusion is often stated, the evaluations of governmental financial inclusion initiatives provide only limited evidence for such a relationship. Firstly, this is explained by the types of measures used to identify progress in terms of tackling financial exclusion. For example, the number of bank accounts opened provides little information about the qualitative impacts of financial inclusion initiatives. More questions need to be asked, for example whether people use their account and what difference this makes to people's lives. Secondly, there seems to be little interest in exploring these links systematically, efforts being concentrated instead on measuring the feasibility of new initiatives or the cost-effectiveness of projects. Some of the studies that evaluate more recent initiatives, particularly money advice and financial education projects, show a greater interest in the links between improved financial inclusion and social inclusion. These studies, for example, suggest that providing a financial product alone may not significantly improve financial inclusion since people are unable to use it, for instance because of their personal circumstances. This was clearly shown in the case of the Saving Gateway pilots. Similarly, the provision of money advice may have little impact on clients' future credit use if access to affordable, alternative sources of credit is not facilitated.

Financial inclusion initiatives are also likely to be impeded by low-income consumers' preferences and choices. For example, research shows that people with basic bank account may be reluctant to use their account because of the imposition of charges, which can contribute to financial difficulties, or because of mistrust of banks. While choice is partly accounted for through the design of specific financial products for low-income consumers, this is generally not the case for the precarious personal circumstances of financially excluded individuals despite suggestions in the literature that tackling these is important when promoting financial inclusion (see for example, Devlin, 2005; Drakeford and Sachdev, 2001). Instead, financially excluded individuals are construed by the government as being financially and socially different to the rest of society, which justifies the approach of the government. For example, government's financial inclusion strategy places much responsibility on the individual in improving his or her situation. Although the government provides the 'tools' for individual progress in terms of specifically designed financial products, money advice and

financial education, these policies may have little impact in terms of improving the situation of financially excluded individuals, and thus preventing financial exclusion, in the longer term. Overall, the relationship between financial inclusion and social inclusion needs to be explored more thoroughly.

The main objective of this study is to explore the relationship between financial inclusion and the wider processes of social inclusion. However, it is hard to ignore the evidence of the minimal impact of financial inclusion initiatives in actually delivering financial inclusion, as outlined above. Little is known about the *processes* that lead to financial inclusion. It is hence another task of this research to capture the essence of these processes, both in the short and the longer term.

The following chapter sets out in detail how the research was conducted and the data analysed.

Chapter 5 - Methods

5.1 Overview of the Research

The key research objective is to understand the relationship between improved financial inclusion and the wider dynamic processes of social exclusion. This is achieved by answering the following questions:

- What are the key processes that lead to financial inclusion?
- What are the wider (longer term) impacts of improved financial inclusion on the lives of disadvantaged people, their quality of life and life chances?
- Specifically, how does improved financial inclusion link to the broader dynamic processes of social inclusion?

To answer these questions the research adopts a multi-stage approach. The different stages are summarised in the table below (Table 5.1).

Table 5.1 Overview of the Different Stages of the Research

Stages	Research aims	Actions	Timeframe
First stage	Examining service providers' understanding and experience of improving financial inclusion and the impacts of improved financial inclusion on service users	Semi-structured interviews face-to-face with financial inclusion service providers ⁷⁸	March and April 2006
Second stage	Examining how individuals have experienced financial exclusion in the past and the impact of using the agencies on improving financial inclusion and the wider impact of improved financial inclusion	Semi-structured face-to-face interviews with individuals who used financial inclusion services (service users)	September to November 2006
Third stage	Exploring the longer term impact of financial inclusion services and improved financial inclusion	Semi-structured telephone interviews with sample of service users approximately 12 months after first contact	September 2007

⁷⁸ These are defined as services that aim to promote financial inclusion either through one or all of the following services: the provision of financial products, financial advice or education.

The different stages of the research will be discussed in detail in the subsequent sections.

5.2 Research Approach

Given the novelty of this research and the lack of qualitative data to measure the impacts of improved financial inclusion on the life of people who use financial inclusion services, the main research approach of this study is qualitative. The previous chapters have shown that promoting financial inclusion and the links between financial inclusion and social inclusion are not straightforward. For example, there is empirical evidence that suggests that social inclusion is not influenced so much by financial inclusion, but by other aspects of social inclusion, particularly increased income (see for example, Gillespie et al., 2007). Using a qualitative approach enables the research to collect ‘rich’ and meaningful data and obtain a ‘deep’ understanding of the research area and explain the processes that are at work (Bryman, 2004; Mason, 2002). This needs to be understood as contrasting with the application of a set of sometimes ill-fitting indicators to explain improved financial inclusion, which does not offer much information about its meaning for individuals.

Although there are limits to the degree findings can be generalised across social settings and the statistical significance of findings cannot be tested, qualitative research is valuable in the way it makes the research subject stand in the centre of the inquiry and enables the researcher to gather meaningful and rich data from individuals’ life experience – something which cannot be necessarily claimed about quantitative research. Qualitative research thus enables researchers to view events and the social world through the eyes of the research subject (‘empathic stance’) and ‘probe beneath surface appearance’ (Bryman, 2004: 280). This helps to gain an in-depth understanding of social phenomena and the processes that constitute the world of individuals. Causality can be probed with interviewees rather than just inferred from correlations. It is, therefore, anticipated that a qualitative research inquiry is useful in the way it helps to disentangle the complex processes that lead to improved financial and social inclusion and to understand the qualitative impacts of improved financial inclusion on individuals’ lives.

The main method used to gather data was semi-structured interviews with open ended questions. Although other methods of gathering the data were considered, such as group discussions (i.e. focus groups), qualitative one-to-one interviews were preferred because they allowed for a more intimate and open discussion of what could be a distressing experience for respondents. In addition, qualitative interviewing gives interviewees the possibility to direct the research inquiry and to raise issues that they themselves see as important rather than strictly following a predetermined interview structure as is the case with quantitative structured interviews (Bryman, 2001). For the researcher this means that he or she was able to explore the interviewee's point of view, while still retaining some structure and ensuring that important issues are covered in the interview. Qualitative interviewing allows for a flexible ordering of questions, encouraging natural speech and allowing researchers and interviewees to develop unexpected themes or prompt for further information, as Mason (2002), for example, suggests. It also enables researchers to depart significantly from the interview guide (in case of semi-structured interviews), ask new questions and even vary the wording of questions (Bryman, 2004). Thus qualitative interviewing is a sensitive tool which gave the researcher the opportunity to explore new ideas, make a link between concepts and disentangle complex processes. Furthermore, given the nature of the topic area - issues of financial exclusion are often associated with other aspects of disadvantage which might cause distress among interviewees - it is important to employ a research method that is sensitive to the individual interview situation (e.g. rephrasing, reordering of questions).

5.3 Research Setting

The research is set in Scotland. There are many factors that make Scotland an interesting and appropriate setting for this study. Higher levels of financial exclusion are generally evident in Scotland in comparison to England and Wales. Looking at banking as a basic indicator of financial exclusion, the FRS 2006/07, for example, shows that households in Scotland, in addition to being unbanked, face a greater chance of being underbanked, with households holding basic banking products only (Willitts et al., 2008). At the regional level, data from the Scottish Household Survey (SHS) show that, compared to other local authorities in Scotland, Glasgow held the highest proportion of households without a bank or building society account, including savings accounts, in 2003/04 (Martin et al., 2005) as did households living in the 20% most deprived areas across Scotland (Scottish Executive, 2005b).

Higher levels of financial exclusion in some areas of Scotland coincide with higher than average levels of deprivation in these areas. According to Houston and Knox (2001) West-central Scotland in particular is one of the most deprived parts of Britain, with significant differences between more affluent cities such as Edinburgh and Aberdeen and more deprived urban areas such as Dundee and Glasgow (cited in Stewart, 2004: 47). Glasgow in particular has been described as ‘one of the most socially divided places in the UK’ (Byrne, 2005: 145). In some areas of Glasgow, particularly in the east end, levels of deprivation are relatively high (Centre for Social Justice, 2008). Easterhouse council estate, in the east of Glasgow, has repeatedly been used as an example for the social and economic problems that some (urban) areas in Scotland experience (see for example, Harvie, 2001, 2002; Lee, 1995; McCormick and Leicester, 1998). However, concentrations of deprivation and financial exclusion also exist within areas of relative affluence and low overall rates of exclusion, as is suggested in the literature (Kempson and Whyley, 1999b; Mooney and Johnstone, 2000). For example, baseline survey data for Wester Hailes, a large housing estate in Edinburgh, give evidence to high levels of financial exclusion in this area, with 17% of respondents lacking banking services, limited use of current accounts, preference for cash transactions and reliance upon sub-prime credit (Communities Scotland, 2003; Sinclair, 2001). Therefore, the disparities between some areas, even within close proximity, can be significant.

5.4 Starting Out: the Agency Interviews

The previous chapter showed that partnership working is central to the financial inclusion approach of both the UK government and in Scotland. Third sector agencies or the not-for-profit sector⁷⁹ play an important role in delivering financial services and helping consumers to make good use of available financial products. Third-sector organisations that are involved in the delivery of financial inclusion in some form or another include:

⁷⁹ Because of the great variations of the sector in terms of goals, size and mode of operation, there is no definite or single definition of it. However, organisations that fall under the category share some key characteristics, such as non-profit distribution of business income, self-governance and voluntariness (Anheier, 2000: 1-2).

- Credit unions and CDFIs;
- Social landlords;
- Money advice agencies; and
- Agencies that deliver financial education (often integrated in agencies that offer financial advice or other types of voluntary organisations).

The work of these agencies, particularly that of credit unions, is seen by the government as essential in particular in improving financial inclusion in deprived areas and reaching those who are most vulnerable to financial exclusion (see for example, HM Treasury, 2004). For example, given that a large number of people without mainstream banking services are social tenants, it is argued that social landlords are in a good position to target this group. Some voluntary agencies also work together with mainstream financial institutions and other organisations to offer affordable financial products to clients. In addition, alongside consumer advice produced by central government, some banks have provided material to schools and other organisations to educate consumers in financial matters for some years. Table 5.2 summarises the types of financial inclusion agencies.

Table 5.2 The Broad Types of Financial Inclusion Agencies

Type of service	Key features
Financial services	Delivery of bank accounts, credit, insurance and savings products
Money advice	Debt counselling, financial statements ⁸⁰ , welfare rights advice, income maximisation, budgeting advice, managing financial products
Financial education	Budgeting advice, financial confidence, discuss income and expenditure, increasing understanding of financial products, explaining financial processes

Source: The Scottish National Standards for Information and Advice Providers, information material from agencies and interviews with agencies and service users.

All of these services are important as they tackle different aspects of financial exclusion; namely access to and use of financial products. The different strands of financial inclusion services are not clear-cut. This is especially true for more recent

⁸⁰ This aims to give a breakdown of expenditure against income.

financial inclusion projects which follow a holistic approach to the delivery of financial inclusion. For example, money advice frequently involves more than just debt counselling or dealing with creditors. It often includes income maximisation/benefit advice and advising clients on their expenditure (i.e. budgeting advice). A holistic approach to money advice thus takes into account clients' wider financial and social situation rather than simply reacting to clients' debt problems (Phipps and Hopwood Road, 2006). The debt counselling process in itself offers a form of 'basic financial education', as a manager of one of the money advice agencies interviewed at the first stage points out. It can make people aware of how they use credit or manage finances. Despite the closeness of money advice to the provision of financial education, the latter can be said to deal more intensively with people's personal money management skills and to increase clients' financial knowledge rather than dealing with the practical side of negotiating debts. More precisely, it is defined as a process by which consumers 'improve their understanding of financial products and concepts and (...) develop the skills and confidence to become more aware of financial risk and opportunities' (OECD, 2005: 12). It therefore aims to improve both financial literacy (financial understanding and knowledge) and financial capability (financial skills and confidence).

5.4.1 Choosing the Agencies for the First Stage

The first stage of the research was largely explorative. Its aim was to gain a better understanding of the work agencies undertake to deliver financial inclusion and how they think their service may impact on the lives of service users.

As pointed out above, there exists a wide range of agencies that aim to deliver financial inclusion in one way or another. Therefore, the research aimed at including agencies and projects across a wide range of service provision, covering rural as well as urban areas. The projects listed in the Scottish Executive's and the UK government's financial inclusion action plan reports (HM Treasury, 2004; Scottish Executive, 2005a) offered a first indication of which agencies could be contacted.

While some organisations have delivered financial inclusion services for a number of years⁸¹, other financial inclusion initiatives are relatively new. There were only a few financial education initiatives which have been set up at the time. In this respect, the Scottish Executive, alongside the launch of its *Financial Inclusion Action Plan* (Scottish Executive, 2005a), initiated six financial education projects based in CABx across Scotland. These projects target a range of vulnerable groups such as single parents, low-income families, people with mental health and addiction issues and those affected or threatened by homelessness (Alexander, 2006). Most of them are also based in areas of deprivation. Of the CABx-based financial education projects, four were selected to cover a range of areas (rural and urban) and target groups. Two other financial education projects, set-up in January 2004 and August 2005 respectively, were chosen for their innovative, holistic approach towards promoting financial inclusion, tackling areas of high deprivation.

Overall, a wider choice existed in the money advice category, with many agencies being involved in the provision of money advice in association with CABx, local authorities or as independent organisations. An important criterion for the selection of money advice agencies was whether agencies were involved in wider financial inclusion work, either as part of a wider financial inclusion partnership and/or in the form of projects that target specific groups or areas characterised by high levels of deprivation and financial exclusion. Similarly, important criteria for the selection of organisations within the final category ‘financial services’ were their involvement with financial and wider social inclusion work, for example through being part of a financial or social inclusion city-wide partnership. Moreover, all selected agencies either cover areas of deprivation and high levels of financial exclusion⁸² and/or target social groups with a higher risk of financial exclusion. Despite attempts to include more mainstream financial institutions in the research, only one was willing to participate. Table 5.3 summarises the types of agencies with which interviews were conducted and the number of interviews done in each setting.

⁸¹ The first credit unions for example were formed in 1964 (O’Connell, 2005).

⁸² A useful tool to identify areas of deprivation within Scotland is the interactive mapping tool of the Scottish Index of Multiple Deprivation (SIMD). Another valuable source is the baseline surveys conducted by individual agencies with the aim to identify areas of deprivation and high levels of financial exclusion.

Table 5.3 The Agency Sample of the First Stage of the Research and the Number of Interviews Conducted in Each Setting

Type of setting		Number of interviews conducted in each setting
Financial services	Credit union	5
	Housing association	2
	Building society	1
Money advice	Money advice agency	5
Financial education	Citizens Advice Bureau ⁸³	4
	Money advice agency	1
	Financial inclusion project	1
Total		19

A total of 19 interviews were carried out with knowledgeable and experienced individuals working in the settings.⁸⁴ These include interviews with managers, money advisers, financial education officers, one depute chief executive and project coordinator. The interview itself was fairly loosely structured, discussing issues on a range of topics, including the agencies' perceptions of the experience of financial exclusion amongst their client base and in the area as well as other forms of deprivation (and the relationship between these wider problems and specific financial exclusion), the causes and consequences of disadvantage, their attempts to tackle these issues and what they think is the likely outcome of these interventions (Appendix B). All interviews were tape-recorded and thematically summarised. Although not necessarily required for the straightforward approach to analysing these interviews (and the number of interviews), the usage of computer software (i.e. NVivo 2.0) was found useful, particularly in terms of getting familiar with the software and preparing for the analysis of the service-user interviews.

The key objective of this stage of the research was to explore the field, gather information on the types of projects and services delivered and inform future data

⁸³ In one case an e-mail interview was conducted with the financial education officer of the financial education project due to time constraints (contact person was in the process of leaving his post at the time of the interview).

⁸⁴ Before the fieldwork, ethical clearance was sought from the University.

collection and analysis rather than providing a systematic account of providers' view. Although initially considered, a detailed analysis of the agency interviews was not undertaken because of the richness and the amount of data gathered from service users who were the focus of this study.

These initial interviews with experts were helpful in increasing awareness of the delivery of financial inclusion within different types of agencies. They provided evidence on the views of agencies as service providers as opposed to the experience of service users. In many areas concerning issues of financial and social exclusion views were shared by both service providers and users such as the beneficial impact of the agencies on clients' health and well-being and their financial situation (e.g. benefit advice, debt negotiation). However, service users' experience differed from claims made by providers in relation to the link between improved financial inclusion and employability where service users' experience did not indicate a strong link between the two phenomena. Overall, the interviews gave vital clues about the problems clients of these agencies face and how these problems were tackled. Experts also offered important information about possible links between improved financial and social inclusion. In practical terms, these discussions informed the case study selection of the second stage, initiated contact with gatekeepers and helped to structure the interviews with service users. This stage of the research will be explained in detail in the following.

5.5 Deeper Insights: Interviews with Service Users

Despite the usefulness of the discussions with agencies for gathering local knowledge about different settings, experts' knowledge was often anecdotal. Therefore, they did not, and could not, provide in-depth insights into how different aspects of their services impact on individuals, their feelings and the underlying processes of change. Experts' views might have also been influenced by 'official views', since all of them received some government funding, and might not offer an objective assessment of their service provision. Consequently, talking to service users was thought to allow for a more subject-centred and detailed view of their experience of financial exclusion and the impacts of improved financial inclusion.

5.5.1 Choosing the Case Studies

For the second stage of the research it was sought to include a sub-sample of the agencies included in the first stage. It was a key advantages of this approach that contact with relevant agencies had already been established so that access to the settings would not be an issue; though in one case participation was declined. Overall, it was aimed to conduct interviews with around 40 service users in order to allow for a wide variety of experiences. In addition, service users were sought from all three types of financial inclusion agencies. To ensure a good variety of settings in terms of the services they offer, the areas they serve and their target groups, it was decided to include two exemplars of each type of financial inclusion services plus one project which aimed to draw the different services together in a kind of ‘one-stop-shop’: facilitating access to financial products as well as offering financial education and advice. The selection of agencies for the second stage is illustrated in Table 5.4.

Table 5.4 The Key Characteristics of the Agencies Involved in the Second Stage of the Research

Name of agency⁸⁵	Type of services offered	Client base, target group	Area covered	Financial inclusion service established
Caledonia Credit Union	<ul style="list-style-type: none"> - Savings and loans - Budget service - Debt advice 	All people who live and work within the common bond area. Budget service is also open to non-members who live in the area	Common bond covers the Greater City of Glasgow plus the city centre and parts of the West end of the city, areas (mainly classified as 'urban deprived')	Credit union established 1993 and budget service set up in 2003.
Community Help Centre	<ul style="list-style-type: none"> - Financial education - Debt advice - General money/benefit advice 	Target specifically new tenants, clients affected or threatened by homelessness, at transition points (e.g. relationship break up, bereavement, moving into work), clients with mental health or addiction issues	Covers East Dunbartonshire (urban non-deprived area)	The financial education project was launched in January 2005.
Glasgow Advice Bureau	<ul style="list-style-type: none"> - Debt advice - General money/benefit advice - Financial education (ongoing financial development programme and workshops with 10 modules) 	No specific target group, but general focus is on disadvantaged people and younger people	East of Glasgow (urban deprived area). Financial education workshops are delivered to a range of partner organisations based in other areas of Glasgow and outside Glasgow.	Agency established 1994. Financial development programme started early 2004. Financial education workshops began in January 2005.
Financial Inclusion	<ul style="list-style-type: none"> - Debt advice - General 	Everybody living in the target area	Covers the East of Fife (urban and accessible rural deprived area)	Project was established in August 2005.

⁸⁵ All names have been changed to preserve anonymity.

Project	money/benefit advice - Financial education - Access to financial services			
Money Advice Centre	- Debt advice - General money/benefit advice	Everybody living in the target area	Covers whole of Fife (urban and accessible rural areas)	Agency established in 1997.
Waterside Housing Association	- Debt and general money/benefit advice - Savings and loans scheme ⁸⁶ - Other financial services and products (home contents insurance, White goods)	Housing association tenants	Housing association with properties in Edinburgh, Fife, Dundee and Perth. Covers urban deprived as well as remote and accessible rural areas	Money advice delivered since August 2004. Savings and loans scheme launched in December 2005.
West Edinburgh Advice Cooperative	- Debt advice - General money/benefit advice - Budget service (through partner agency)	Everybody living in the target area	Covers the South and West of Edinburgh (urban deprived and non-deprived areas)	Established as independent advice agency in 1997.

⁸⁶ In cooperation with a building society.

The case studies represent a great diversity with regard to the services they deliver, their geographic location (rural versus urban) and the types of clients they serve (general public versus specific target groups). They often work in partnership with different financial inclusion agencies (e.g. referring clients to credit unions) and other organisations (e.g. receiving referrals from Jobcentre Plus, CABx, local authorities, housing associations or health services). The sample includes both longer established agencies and projects that have only recently been set up. Although most participating agencies use a one-to-one approach to deal with clients, the financial education work of the Glasgow Advice Bureau is group-based. These various delivery approaches may have different implications for the outcome of the agencies' financial inclusion work and the wider impact of the agencies. In all agencies, the provision of debt advice, delivered either by specifically trained advisers in-house or in partnership with other organisations, plays a central role. All agencies are third-sector agencies. This had practical reasons, since the only mainstream financial institution included in the first stage acts as an intermediary to the Waterside Housing Association's savings and loans scheme.

5.5.2 *Selecting Respondents*

The strategy employed to select respondents is theoretical sampling. This is not based on selecting a statistically representative randomly selected sample, but 'is done in order to discover categories and their properties' (Glaser and Strauss, 1967: 62). Following this theorem, groups or categories to study are selected on the basis of their significance to a specific research question (Mason, 1996). As an adequate theoretical sample is judged on the basis of the variety and diversity of the chosen groups and in light of the fact that comparing and contrasting different experiences are important in building theories in qualitative research (Strauss and Corbin, 1998), an attempt was made to design a wide and diverse sample. This was based on different criteria such as including service users who experienced a range of difficulties in respect of accessing and using financial services and managing finances more generally, clients of different age, gender, living in rural as well as urban areas.⁸⁷ The research envisaged around 40

⁸⁷ Because of the live and work common bond of Caledonia Credit Union, which includes those living *and working* in the credit union area, the sample was controlled to include only those living in the area.

interviews with service users in order to capture a wide range of experiences. To allow meaningful comparisons between different individuals using the agencies, it was aimed to include at least three clients from each of the seven agencies.

Although considered initially, there were several factors that spoke against a pre-selection or pre-interview screening of interviewees in terms of their experience of financial exclusion. Most importantly, a pre-selection of respondents was dismissed in general on the ground that this would not be necessary in most cases, given that most agencies serve particularly disadvantaged areas and groups of people that also face a higher risk of financial exclusion, as Chapter 3 discussed. In fact, the nature of the (Table 5.6) confirmed the success of this strategy, with the majority of respondents having been vulnerable in terms of their socio-economic status, and having had experienced financial exclusion at the time of coming into contact with the agency. Only adults were included in the research; most importantly because, with those of school-age, the impact of improved financial inclusion on, for instance, employability would be hard to gauge. In addition, accessing certain financial services, such as home contents insurance, does not play a significant role in the lives of most of those of school-age because they still live at home. No selection was made in terms of gender since the study was interested in the experience of both men and women.

5.5.3 Establishing Contact with Service Users

Rather than contacting service users directly, which was not possible because of data protection rules, the agencies were generally used as intermediaries to contact respondents on the researcher's behalf. Specifically, the agencies were asked to send out a letter to those clients that had been in contact with them in the past 12 months (from September 2006). In the case of some projects such as the Financial Inclusion Project, which had only seen a relatively small number of clients since they had started to operate, all clients were contacted. For those with a larger client base, the main contacts at the relevant agency were asked to select an appropriate number of clients at

random.⁸⁸ After receipt of the letter, prospective respondents then had the possibility of opting into the research either by contacting the researcher directly or letting the agency know that they were interested in participating. Subsequently it was possible to arrange a convenient date and time for the interview to take place.

In general, agencies were able to provide a room which allowed the interview to be conducted uninterruptedly and in private. This was important since it made it possible to establish an adequate rapport with the interview partner in order to carry out meaningful in-depth qualitative interviews and to create what Mason (2002) describes as a 'conversation with a purpose' (Mason, 2002: 62). As an alternative, interviewees could be visited at their home. This option was used in a minority of cases, usually in the case of those with physical and mental health issues. In this way participation in the research was made possible for service users who would otherwise have found it difficult to attend the interview.

Some of the respondents had repeated contact with the agency. In this case, the most recent experience was the focus of the interview. The longitudinal element is important to this research. It is complemented by follow-up interviews with service users, which will be discussed in section 5.6.

The method of contacting service users via the agencies clearly had advantages as it enabled the researcher to make contact with hard-to-reach, vulnerable groups. Trust between clients and agencies in this respect played an important role in facilitating contact with service users. In fact, recruiting clients from agencies that had close, and often ongoing, contact with their clients proved to be most successful. In contrast, the response rate for larger organisations which had less intensive personal contact with clients was generally lower.⁸⁹ A downside of this approach was the lack of control the researcher had over the recruitment process. As a result, a considerable amount of time

⁸⁸ Although it cannot be completely ruled out that the main contacts at the agency did choose clients according to their own preferences, the sample included respondents with both positive and more negative experiences with the agencies, indicating a non-biased selection of service users.

⁸⁹ For example, around 100 letters were sent out to members of Caledonia Credit Union, but only one interview was conducted in this setting. In contrast, contacting members of the organisations' budget service was more successful.

was spent on ensuring that letters were sent to clients. This process was further complicated by the fact that contact details of clients were sometimes held by partner organisations, rather than agencies themselves. In this case the cooperation of the partner organisation was sought to ensure that individuals were contacted.

5.5.4 Interview Framework and Process

Data were collected through qualitative in-depth face-to-face interviews, using a loose framework that covered a range of topics. Through talking to the agencies at the first stage it had become increasingly clear that, given the complexity of financial inclusion processes, it would be important not only to look at aspects of financial inclusion measures that directly improve financial inclusion, but also at those aspects that promote social inclusion more generally. One of the most striking examples that was mentioned was the change in the way that people perceive themselves and their environment. People on low incomes often felt powerless in the way they led their lives, felt intimidated by ‘authorities’, such as social services, utility providers and banks and showed a general lack of confidence. In this context, some agencies aimed to show people that ‘they do have choices’ (manager, money advice) and ‘give them the confidence to go and do something’ (project coordinator, financial education). This included accessing and using financial products, but went further than that to describe individuals’ relationship with their surroundings more in general (e.g. links to employability).

This broader context of financial inclusion was accounted for in the interview framework, which covered issues of financial inclusion as well as social inclusion more broadly (including changes in confidence, issues of empowerment) (Appendix C). In addition, during the interview process care was taken to be fairly open about when and how questions were asked and asking new questions to understand processes that lead to financial and social inclusion more clearly. The previous chapters and the agency interviews highlighted the links between financial exclusion and over-indebtedness, with financial exclusion contributing to over-indebtedness and debt problems being an important influence on processes of financial exclusion. Therefore, an emerging third major theme featured in the interview guide was money management and debt. Overall, the interview framework was structured around three main themes: ‘access and use of financial services’; ‘money management/debt’; and ‘personal circumstances’ with various sub-questions and prompts placed under each topic.

The questions were open-ended to allow respondents to freely articulate their experiences. To understand any changes that were perceived or apparent in individuals' lives the research used a 'before/after' approach, exploring respondents' experience before and after having been in contact with the agency. Each section started with an introducing question to open up the discussion before asking more specific questions under each topic. Although fairly unstructured, the interview framework was constructed in a way to probe for 'core' information during the interview process, for example information about bank account ownership, in order to compare any changes experienced before and after contact with the agency. Overall, interviewees were encouraged to speak freely about any negative experiences they might have had with regards to using the service in order to avoid bias towards overly positive views.⁹⁰ The possible presence of bias highlights the relevance of the situation in which data were obtained (e.g. the interview situation, types of questions asked, relationship between interviewer and interviewee). It is therefore important to interpret the interview and clarify any issues with the interviewee during the interview in order to minimise ambiguities or misinterpretations⁹¹, as Mason (2002) points out, and to keep in mind the possible presence of bias when analysing interview accounts and developing ideas.

Pilots: The first three or so interviews affirmed the need to be very open in the way in which questions were asked in order to get meaningful data, rather than short 'yes'/'no'-style answers. As a result, the structure of the framework was simplified⁹². The first three interviews were conducted with single mothers who participated in financial education workshops. While the workshops had a moderate impact on the women's level of financial exclusion, it greatly impacted on other aspects of their lives (e.g. increased confidence in dealing with money). As a result of these first three interviews,

⁹⁰ In some ways the fact that the researcher is not a native Briton may have helped some respondents to speak freely about their experiences because she is likely not to have the same value judgements as native residents. This meant that interviewees were keen to explain the financial system to her and, for example, how easily people 'in this country' get into financial difficulties.

⁹¹ This was particularly of relevance as English is the researcher's second language. In addition, some interviewees had strong Scots accents.

⁹² For example three separate categories were used to describe changes in personal circumstances. These were brought together under one category.

care was taken to be very open about other aspects of the agencies' services and how these might be related to improving financial inclusion.

Ethical issues: Given the sensitivity of the research topic and the likely vulnerability of interviewees, it was important to inform respondents fully about the nature and purpose of the research, what would happen to 'their' data and the confidentiality of the interview. Having been aware that the interview might be upsetting for some, respondents were informed that they could stop the interview at any point or decide not to discuss a particular topic. Only after individuals had given their full (informed) consent was the interview conducted. The same applied to the recording of interviews.

With the exception of one interviewee, who preferred the interview not to be recorded, all other interviews were either tape recorded or recorded using MD equipment. The interviews lasted between 20 and 90 minutes.⁹³ At the end of each interview some statistical data were gathered through using a brief standardised questionnaire.

Challenges during the interview process: It was anticipated that the sensitivity of the topic area (i.e. talking about financial services and finances more in generally) may make the interview process a difficult and emotional experience for at least some interviewees. Somewhat surprising, in the majority of cases, respondents were willing to discuss openly these issues and none of the interviews had to be stopped. Nevertheless, some respondents had considerable difficulties discussing personal money matters and sometimes it was necessary to move away from distressing experiences (particularly debt problems). Most people preferred discussing their experience after contacting the agency (particularly if positive) rather than reflecting on past difficulties (e.g. 'I'm fine now') because this often brought back troubled and painful memories. The flexible ordering of questions, as one of the aspects of qualitative interviewing, was clearly advantageous for moving interviewees away from distressing questions and approaching these at a later point during the interview.

⁹³ Most interviews lasted around 55 minutes with three shorter ones lasting around 30 minutes and a small number of about nine interviews lasting 70 minutes and more.

The interview covered a wide range of topic areas and the discussion followed closely the emphasis of interviewees (i.e. discussing in depth what they thought was important). Although the interview framework was designed to cover all topic areas in sufficient details, the in-depth nature of the interviews meant that in some cases not all issues were covered with the same level of detail or even omitted from the discussion because of time constraints (e.g. interviewees growing tired). In these cases, judgements had to be made about the emphasis of this research, with all interviews having covered the key areas of banking, credit and savings, but not necessarily home contents insurance; more so as the government had lacked interest in this area at the time when the fieldwork was conducted.

In-depth research of this kind ‘is heavily dependent on people’s capacities to verbalise, interact, conceptualise and remember’ (Mason, 2002: 64). It also demands a great deal of interviewees to ask them to reflect upon complex (and often distressing) aspects of their lives and to talk freely about their feelings. As a result it was sometimes difficult to get respondents to reflect upon financial exclusion or consider other issues in their lives in great detail. An advantage of qualitative interviewing in this context was that questions could be re-phrased and adapted to the context of the individual interview.

5.5.5 Nature of the Sample

The fieldwork of the service user interviews took place between September and November 2006. All in all, 41 qualitative interviews were included in the analysis.⁹⁴ Table 5.5 illustrates the number of participants interviewed in each setting:

⁹⁴ One interview was omitted from the analysis because the interviewee had not used or was planning to use any financial inclusion services despite stating otherwise when arranging the interview.

Table 5.5 The Number of Interviews Conducted in Each Setting

Name of the agency		Number of interviews conducted
Caledonia Credit Union and budget service		6
Community Help Centre		4
Financial Inclusion Project		9
Glasgow Advice Bureau	Financial education workshop	7
	Financial Inclusion programme	4
	Glasgow Advice Bureau only	1
	Total	12
Money Advice Centre		3
Waterside Housing Association		4
West Edinburgh Advice Cooperative		3
Total		41

Across the range of agencies, at least three respondents could be interviewed in each setting. A relatively large proportion of people were recruited from the Glasgow Advice Bureau in order to adequately cover the two types of financial education courses they offer (though one did not participate in either of them despite having been registered as a participant). In contrast, the response rate of Caledonia Credit Union (without budget service members) and members of the housing association's savings and loans scheme was lower than expected. One possible explanation is the less intensive contact members have with credit unions or their social landlord and thus, less interest in helping the research. However, it was possible to get in contact with some members of Caledonia Credit Union through its budget service since users of the budget service were required to formally become a credit union member. In addition, members from other credit unions were recruited, particularly through the Financial Inclusion Project and the other financial education projects. Table 5.6 summarises the key characteristics of the sample.

Table 5.6 The Nature of the Sample

Interviewee characteristics ⁹⁵		Number of interviewees
Sex	Male	20
	Female	21
Age	16-34	8
	35-59	26
	60+	7
Family status	Single parent	14
	Single without (dependent) children	19
	Couple with or without (dependent) children	8
Housing status	Social rented accommodation	31
	Private tenant	1
	Homeowner	7
	Temporary/sheltered accommodation	2
Employment status	Employed part-/full-time or self-employed	8
	In training/full-time education	3
	Unemployed	18
	Permanently sick or disabled	8
	Retired	4
Main source of income	Wages from employment	7
	Benefits ⁹⁶	29
	Pension	5
Weekly net household income ⁹⁷	Under £100	10
	£100 and less than £200	19
	£200 and less than £300	8
	£300 and more	3
Experience of financial exclusion ⁹⁸	No bank account	6
	Limited or no use of bank account	17
	No formal saving	37
	Refused credit	6
	Use of sub-prime credit	23
	No home contents insurance	16

⁹⁵ At the time of the first interview.

⁹⁶ This includes Income Support, Jobseeker Allowance, Disability Living Allowance as well as Child and Working Tax Credits, Council Tax and Housing Benefits.

⁹⁷ One respondent refused this information.

⁹⁸ This applies to respondents' experience **before** using the agency since this study concentrates on individuals' changes in terms of financial exclusion.

Table 5.6 illustrates that the sample, overall, was characterised by a relatively low socio-economic status and relatively high levels of financial exclusion.

Interviewees' income was generally low. This was expressed by the high level of benefit dependency in the sample (34 out of 41 received some form of benefits including state pensions) and the total weekly household income of individuals. A detailed analysis of interviewees' financial situation showed that 26 respondents lived in or headed households below the poverty threshold⁹⁹; whereas the majority of the remaining respondents lived on an income just above the threshold. Generally, households that relied entirely on benefits as their source of income, especially single parent households, were among those that lived on the lowest incomes. Overall, eight out of the 14 households with dependent children lived below the poverty threshold. The proportion of those who were out of work was also high, with 26 respondents unemployed or unavailable for work either due to illness or disability. This indicates a great vulnerability of the sample in terms of health; though this can be partly explained by the relatively large number of older respondents. Despite making significant efforts to include younger people in the research, it was difficult to reach this age group. The relatively high proportion of older people is also reflected in the relatively low number of households with dependent children; though the majority of the older respondents had had children in the past and could reflect on this experience during the interview. Thirty-three respondents lived in social rented accommodation. However, despite significant attempts, only one private tenant - as belonging to a group which are at a higher risk of financial exclusion - could be recruited. Although not a particular focus of this research, the participation of one respondent from an ethnic minority group increased the researcher's awareness of the concerns of this particular group (e.g. language and cultural barriers), which are the subject-matter of a growing body of research (see for example, Herbert and Kempson, 1996; Kempson, 1998a).

⁹⁹ Based on the Household Below Average Income (HBAI) 2004/05 analysis and defined as 60% of the contemporary Great Britain median (equalised) household income before housing costs.

Not surprisingly, given the experience of social and economic disadvantage in the sample, the experience of financial exclusion was also evident in most cases. This will be discussed at length in the subsequent chapter.

5.6 Interviewing Service Users Again: the Follow-up Interviews

The final part of the research involved going back to the service users interviewed at the previous stage to follow-up on any changes people might have experienced since the first interview. The way clients were selected meant that some respondents had had first contact with the agency for more than 12 months previously and had been in continuing or recurring contact with the agency since. This was particularly true for clients from the long-term financial development programme at the Glasgow Advice Bureau, the financial education project at the Community Help Centre and the clients selected from the West Edinburgh Advice Cooperative. Nearly half of the follow-up sample had been in first contact with the agency almost two years ago by the time of the follow-up interview, which allowed to look at the longer term impact of financial inclusion: an element which is currently missing in financial inclusion research.

Interviews were conducted in September 2007, 12 months after the beginning of the first round of service user interviews. All service users who had given their consent previously were contacted again by telephone. More than half (24 out of 41) of the original participants agreed to be interviewed a second time, with the majority of those who were not interviewed falling under the category of ‘failed contact’ (i.e. invalid telephone number, not answering the phone) rather than refused to be interviewed again. The possibility of bias was nevertheless given, since it is not known whether the situation of those who were not contactable has developed differently to the circumstances of those who were re-interviewed. However, the data do not suggest that the situation of the sub-sample was predominantly positive: the circumstances of some re-interviewees had deteriorated since the first discussion.

The follow-up interviews built strongly on the interviews conducted with service users previously. Before the interview, a summary of the previous discussion was read to interviewees in order to help them recall the first interview and reflect on any changes that had happened since, in particular changes to financial inclusion, managing money or debt problems and personal circumstances. In addition, further contact with the

agency (if any) was discussed. Table 5.7 shows how many interviews were conducted in each setting.

Table 5.7 The Number of Follow-up Interviews Conducted in Each Setting

Name of agency		Number of interviews conducted in each setting
Financial Inclusion Project		5
Waterside Housing Association		3
Caledonia Credit Union and budget service		2
West Edinburgh Advice Cooperative		3
Money Advice Centre		2
Community Help Centre		3
Glasgow Advice Bureau	Financial education workshop	4
	Financial inclusion programme	1
	Glasgow Advice Bureau only	1
Total		24

The table demonstrates that respondents were successfully re-contacted in each setting and that contacts split evenly across the different agencies.

Unlike the first interviews with service users the follow-up discussions were shorter, lasting between 12 and 37 minutes. Rather than face-to-face these interviews were conducted over the telephone. One of the main advantages of telephone interviews is their time and cost effectiveness in comparison to personal interviews, making them ideal for the brief follow-ups planned for this stage. In addition, personal contact had already been made during the first interview so that all respondents were willing to be interviewed this way. However, there was also evidence of some drawbacks of telephone interviews, particularly the lack of attention to the interview of some respondents and the lack of privacy during the interview in some cases. However, although somewhat impeding the interview process, respondents were happy to discuss any changes in their lives. All interviews were recorded with PulsarPlus® and thematically summarised.

5.7 Data Analysis

The technique of categorising was used to make sense of the data. This technique enables researchers to identify and link analytic categories and to reveal themes and patterns within data (Dey, 1993; Strauss and Corbin, 1998). As a first step this involves the development of in-depth and comprehensive descriptions of the phenomenon that is studied (Dey, 1993). At the second stage, data are classified and organised into basic categories or codes according to similar meanings and properties (Strauss and Corbin, 1998). In this respect codes need to be meaningful in relation to the data ('internal aspect') (i.e. comparing cases) and other categories ('external aspect') (i.e. comparing categories) (Dey, 1993: 96-97). Once basic codes are developed, data can be further categorised and coded according to the patterns and connections (or distinctions) that emerge. This involves further linking of codes and creating sub-codes in categories, as Dey (1993) points out. It is then possible to develop categories into more general analytical frameworks with relevance to outside the setting (Strauss and Corbin, 1998).

A comprehensive data analysis is important for the validity of statements made from interview data. As interpretations are part of all social interactions, thus also informing the analytic process, it is essential that interpretations are validated through appropriate methods such as constant comparison for identifying and the development of categories, testing out alternative explanations, looking for negative instances ('deviant-case analysis'), and comprehensive data treatment (Silverman, 2001: 254-255).

Given the complexity and richness of qualitative data the process of analysis described above was an appropriate way of making sense of the data. The method by which categories were developed and data organised is described below.

5.7.1 Process of Analysing Data

All interviews were fully (verbatim) transcribed and were checked independently for any mishearings by a postgraduate student of Heriot-Watt University who was familiar with the Scottish vernacular. This ensured the verification and reliability of interview transcripts since their quality has important implications for the reliability of the data analysis.

The first step of the analytical process was to label the data and to place emerging concepts into different codes. In practice, the most basic descriptive codes were shaped by the different topics that were discussed during the interviews: ‘financial exclusion’; ‘credit use/over-indebtedness’; ‘money management’; and ‘personal circumstances’ (Appendix D) The code ‘support’ emerged as fifth main code, bringing together segments of data that refer to the work of individual agencies more directly (e.g. the kind of services and support offered to respondents, how contact was established). The interview data were then sorted into emerging coding categories according to the properties they share with the data placed under each main code. As the data analysis progressed new sub-categories were added to take account of new themes emerging with subsequent analysis of the interviews. These sub-codes related more closely to specific experiences described in the interviews and gave more details about the different aspects of the main category, explaining the ‘when, what, where, why and how a phenomenon is likely to occur’ (Strauss and Corbin, 1998: 119). For example, the overarching core code ‘financial exclusion’, under which was coded everything that respondents had said about their experience of financial exclusion, was further divided into sub-codes, which explained the phenomenon in greater depth (e.g. exclusion from what services and how exclusion had come about).

During the initial coding process it became clear that respondents had not necessarily experienced changes at the time of the interview, but had future plans for change. This was expressed through the code ‘future plans’. The building of broad analytical themes (Bryman, 2004) rather than using codes solely as a way of managing data is an important step in the generation of theory. According to Strauss and Corbin (1998): ‘a set of well-developed categories (...) that are systematically related through statements of relationship (.) form a theoretical framework that explains some relevant social (...) or other phenomenon’ (Strauss and Corbin, 1998: 22). Following the process of constant ‘comparative analysis’ (Strauss and Corbin, 1998), new data were compared with segments of data already coded within a category. This resulted either in the development of new sub-codes, the refinement of existing sub-codes or in the positioning of new data sections within existing codes. Care was taken to be consistent in the assignment of data segments to categories since this was important for the reliability, and thus quality, of the data analysis. To avoid fragmentation of data and loss of the context in which statements were made (Coffey and Atkinson, 1996), it was important to code data segments of sufficient length. In addition, during the data

analysis process it was essential to move back and forth between the codes and the original transcripts. This process of analysing data continued until the last interviews were checked and data saturation reached. During the whole process the analysis was supported by the use of the qualitative computer software package NVivo®. The software has several useful features such as the creation of memos to record thoughts, ideas and interpretations. It was also found useful in the way it facilitated the administration of large amounts of qualitative data that evolved from the fieldwork (e.g. copying, highlighting, cross-referencing data).

This data analysis was informed by grounded theory. According to its theorem theory derives from the data and is systematically gathered and analysed through the research process (see for example, Strauss and Corbin, 1998). Grounded theory was used as a framework in several ways, including the collection of data and the coding process as described above. Furthermore, the approach was found useful in the way it attempts to minimise subjectivity when approaching data and promotes sensitivity and awareness to ‘what is there’ (Strauss and Corbin, 1998: 94); conversely explorative work with agencies informed the data collection, interview framework and interpretation of the data at the second stage.

There are two chapters that present the results of the data analysis. The first of the chapters - Chapter 6 - analyses respondents’ past experience of financial exclusion and related issues. Chapter 7 then concentrates on the changes that were apparent or perceived in individuals’ lives after using the agencies and how improved financial inclusion specifically had changed things for them. Overall, references are made to any longer terms impacts experienced and both chapter incorporate findings of the follow-up interviews. In Chapter 8 - the last chapter of the thesis - the meaning of the data for the wider field and their connection with the literature are established.

Chapter 6 - Individuals' Past Experience of Financial Exclusion and its Links to Social Exclusion

6.1 Introduction

This is the first of two chapters that describes and explains the findings of the data analysis. It is based on the 41 qualitative interviews that were conducted with users of financial inclusion initiatives as well as the 24 interviews conducted with a sub-sample of the original participants to explore the sample's experience of financial exclusion in the longer term. This chapter closely scrutinises service users' accounts of how they came to experience financial exclusion and explores the factors associated with non-engagement in the financial system. The key objectives of the chapter are to understand the main factors that contribute to financial exclusion and the perceived or apparent links between financial and social exclusion. It will provide a basis for a discussion of the perceived and apparent impacts of the agencies on improving financial inclusion and its wider consequences for individuals' lives in Chapter 7.

The accounts presented here chiefly reflect respondents' experiences prior to contacting the respective agencies¹⁰⁰. The first part of the chapter will, in turn, discuss the key aspects of financial exclusion identified in the research: banking, credit, savings and insurance exclusion. The second part draws upon the evidence gathered during the fieldwork to explore the relationship between financial and social exclusion in detail.

6.2 Banking Exclusion

Guaranteeing access to bank accounts and promoting the delivery of, at least, basic banking services is one of the declared key aims of Westminster and its devolved Scottish government. In the literature, having a bank account is seen as an important precondition for efficient functioning in modern society (Gloukoviezoff, 2007). In this section, respondents' experience of banking exclusion will be explored in detail, starting from their experience of high levels of banking exclusion (i.e. having no bank account)

¹⁰⁰ This concerns people's experience immediately or shortly before coming into contact with the agency rather than events that date back some time ago.

to more moderate degrees of exclusion (i.e. limited use of available account). Overall, four groups of respondents were identified:

- Six respondents were without a current or basic bank or building society account;
- Six respondents had a bank account, but were not using it for money management;
- Twenty-one people in the sample used a bank account, but made no or only limited use of automated banking¹⁰¹;
- Eight respondents had a bank account and made comprehensive¹⁰² use of automated banking.

The largest group of people in the sample, therefore, held a bank account and most of them made some use of it. However, problems with using bank accounts were common in the sample, particularly with respect to using direct debits¹⁰³. Therefore, having a bank account and using it was no guarantee for (full) banking inclusion. The experience of respondents with respect to banking is explored in detail below.

6.2.1 Having no Bank Account

Only six respondents had no account with a bank or building society at the time of coming into contact with the agency; whereas some had opened a bank account with the help of another organisation only shortly before coming into contact with one of the case study agencies. This indicates that banking exclusion would have affected more respondents if it had not been for the support of other agencies.

Although this group of respondents had no transaction account with a high-street financial institution, they nevertheless had other types of accounts. All of them held a Post Office Card Account (POCA), with two also having a savings and one having a credit union account. Therefore, rather than being without any type of account,

¹⁰¹ 'Limited' use means that only one or two household bills are paid by direct debit or standing order.

¹⁰² This means that they used direct debits or standing orders for all major bills such as rent/mortgage, utility bills and council tax.

¹⁰³ In equal measure, this refers to the use of direct debits and standing orders.

respondents had some kind of banking service provision, although very marginal in the case of POCAs and credit union accounts. Neither of the latter allow the receipt of certain types of income (e.g. pensions, wages), automated banking or, in case of POCAs, the deposit of money. These accounts, therefore, do not represent full transaction accounts like current accounts.

Self-exclusion: There was no evidence of outright refusal of mainstream banking services. However, lack of sufficient ID (particularly passport or driving licence) could impede the process of opening an account, to the extent that people self-excluded, as this respondent explains:

And it's just one, one piece of ID that I didn't have. I did happen to have the ID, but it was out of date... So I had to get [adviser] and [agency] to write a letter and ... I just gave up on it [opening an account] (...).

Lucas¹⁰⁴, Waterside Housing Association

Thus indirect exclusion or self-exclusion rather than direct exclusion was the major reason for people in the sample to remain without a bank account. The experience of this respondent had further consequences for the participation in the savings and loans scheme of Waterside Housing Association since he no longer wanted to join the scheme because of his difficulties with opening an account. Therefore, the availability of an apparent appropriate financial inclusion initiative was of little use for this respondent because of his difficulty with opening a building society account, which was a pre-requirement for joining the scheme. Lucas' experience echoes the experience of other people in the sample who had made attempts to open an account in the past and following contact with the agency, like this respondent.

It [opening a basic bank account] actually took five weeks when it was meant to take five days supposedly, but it was because of problems with ID and that. (...) I couldn't open it straightaway cos I didn't have a passport or that. So I've to bring in extra information today.

Peter, Financial Inclusion Project

¹⁰⁴ Throughout the thesis, pseudonyms for service users are used to ensure anonymity.

The findings, thus, highlight that despite the government's attempt to facilitate access to mainstream banking services and its commitment to the promotion of basic bank accounts in the Banking Code, meeting the ID requirements for opening an account is still a major obstacle for many financially excluded people.

In the sample, being without a bank account was often associated with respondents' personal circumstances. While employers today often require employees to have a bank account into which their wages are paid, none of the respondents in this group received an income from paid work. Since their social security benefits and pension payments could be paid into their POCA and savings accounts, this group of respondents perceived little need for a bank account. Very basic transaction accounts like POCA's were perceived to be sufficient in fulfilling their money management needs. This point is illustrated by Antonia, a single parent of one.

Because I've never – I've not been working or anything, bringing up my kids. I never had any money. I'm on my own. I'm a single parent. So, my money gets paid in to the post office account. So I don't have a bank account.

Antonia, financial education workshop, Glasgow Advice Bureau

This comment exemplifies the attitude of the three respondents who had had an account in the past, but closed it when they had stopped working. Similarly, it was often shared by those who had a bank account, but made no use of it. In contrast, gaining employment could be seen as an incentive to open and use an account, as will be shown later.

Similar to the findings of Kempson's (1994) research, this study suggests that particularly changes of circumstances which adversely affect people's economic situation, such as unemployment, influenced respondents' decision to close down their bank account. This decision was partly influenced by respondents' negative experiences with banks, the imposition of bank charges and the lack of responsiveness of banks to the needs and circumstances of those in difficult circumstances. The latter was for example described by one respondent who led a chaotic lifestyle and who experienced drug and alcohol problems. One of the problems he experienced in relation to banking was an inability to remember his Personal Identification Number (PIN). With his bank

having been unable or unwilling to respond to his difficulty in an appropriate manner, he closed the account as a consequence.

6.2.2 *Not Using a Bank Account*

In the literature, it is pointed out that having a bank account is no guarantee for full banking inclusion since account holders may make little or no use of available banking facilities (see for example, BMRB Social Research, 2006; Change, 2006; NCC, 2005b). This is confirmed in this research: among the 35 respondents with bank accounts, six respondents had *dormant* accounts. This meant that, although some used their account occasionally for cashing cheques and had kept it open for future use (e.g. in case they were to go back to work), they nevertheless had no regular income coming into the account and made no use of it for their everyday money management. The follow-up interview highlights that this was also true for most of those re-interviewed; hence pointing to the lack of impact of the agencies in the longer term.

Similar to the experience of those without bank accounts, personal circumstances were a powerful factor in explaining non-use of bank accounts among this group where none was economically active. Incentives to open accounts, like that given in the case of participation in training-to-work programmes¹⁰⁵ prior to contacting the agency, had little further impact when account holders did not perceive the advantages of using an account for day-to-day money management.

There's enough in there to keep it open. That's all, you know and ... When I start working again obviously, I'll use it to get wages paid in but that's all I've ever used it for.

Henry, budget service Caledonia Credit Union

Alongside the perceived lack of need for using an account when being out of work and living on a low income, debt problems contributed to banking exclusion, to the extent that respondents had cancelled direct debits prior to contact with the agency. In the case where the problem of banks taking money out of people's account to cover debt

¹⁰⁵ One incentive was the payment of travel expenses into bank accounts.

continued, the agencies were decisive in advising clients to close bank accounts or cancel direct debits, as this respondent has experienced.

I couldnae afford to gave them [creditors] the whole cheque because I needed something for the other people as well. So I just closed the bank account after I've spoke to [adviser]. I says "well, what do I do with the bank account?" He says "you're as well closing it".

Michael, budget service Caledonia Credit Union

All in all, six interviewees who had previously used direct debit were advised to change their banking arrangements. In all cases this resulted in the cancellation of direct debits, and the closure of accounts in two cases. As a consequence, five of the six used a POCA and one a credit union savings account instead of a bank account. For the latter, using only a credit union account created problems with the electronic transfer of certain benefits, which were still, at the time, sent to him as a giro cheque. Apart from that - and although he found it 'weird' not to have a bank account - he generally felt no disadvantage associated with not having an account.

Also others, who closed or stopped using accounts at the recommendation of the agency were relatively contented with these changes to their banking arrangements and the greater control these gave them over their finances, as this respondent in retrospective reflects on his decision of opening a POCA following contact with the agency:

I'd just got a post office account at the time. I hadn't considered another bank account at the time, just having a post office account was enough. The benefit could be paid in and it was sort of easier to use it that way sort of thing.

Peter, Financial Inclusion Project

Overall, these examples show that promoting financial inclusion in the narrow sense of promoting access to financial products, in some cases, could be counterproductive to the benefits of consumers. Agencies, therefore, saw their role not primarily in the promotion of financial products and services *per se*, but in ensuring that these created positive outcomes for clients. In this context, using only basic banking services and no automated banking was thought to give respondents greater control over finances. Reviewing evidence on respondents' experience with POCAs and, related to this, the post office will help to shed more light on this issue.

Preference for POCAs and post offices: Users of POCAs generally preferred tried and trusted methods of money management. Similar to bank account owners who only used their account to withdraw their income and paid all bills in cash, POCA users also preferred a cash-based money management strategy. In addition, POCA users often had a preference for using local post offices, thus, when electronic transfer of benefits was introduced in 2003, continued with their routine of collecting benefits and paying bills there. As the following respondent explains:

You had to change everything [when benefit payments changed] and get put into a account and by that it was a case of they [social security] give you a choice. You can have a post office account or a bank account and I went “well, I always go to the post office. So I’ll just get a post office account”. So I didn’t even think of a bank.

Alison, financial education workshop, Glasgow Advice Bureau

Overall, despite their very limited functionality, which was criticised by a few users, POCAs were perceived as fulfilling all their banking needs: the receipt of benefit income and the payment of bills in cash, chiefly using local post offices. This latter point was important for most users of POCAs. Rather than having been required to use the local post office because POCAs do not have a facility to withdraw money elsewhere, it is the preference for using the post office network in comparison to banks which meant that many had opened a POCA (in some cases, additional to a bank account). Therefore, instead of simply retaining the habit of using the local post office when benefit payments changed, the findings suggest that respondents made an intentional decision to continue to use post offices for collecting benefits; though a number of factors constrained this decision for some¹⁰⁶.

The following factors were important in explaining continued use of post offices, including the convenience of using local post offices to pay all major household bills - mostly free of charge -, the possibility to recharge electricity keys or gas cards, to cash

¹⁰⁶ For example, POCA users were not always well-informed about alternative banking services - for instance the possibility of accessing basic bank accounts at post offices -, many anticipated problems with using mainstream banking services or had had negative experiences.

giro cheques¹⁰⁷, the sale of prepayment tokens for electricity or gas meters, and the generally greater accessibility of the post office network in comparison to bank branches (particularly important for respondents with mobility issues and those with small children). Ultimately, the perceived friendliness of post office staff and their sympathy for the needs of low-income customers gave the post office network a clear advantage over banks for the people concerned in this study.

With the post office it's just ... it's mair friendlier, a friendlier atmosphere, ken. You could talk to them, ken and they're helpful and all and if you're like something needed to fill in – I'm not very good with forms, I'm hopeless with forms – so if there's something to fill out they'll do it for you, ken.

John, Financial Inclusion Project

This comment is echoed in others. It indicates that low-income consumers preferred the 'personal touch' with staff and appreciated the informal help they were able to receive at post offices. The view that post offices were generally more friendly than banks was not only shared amongst elderly respondents, like John, but across the different age groups. In contrast, dealing with banks was described as being less personal, and even disrespectful, by some who had dealt with banks directly, as this respondent explains:

I don't like the way they treat you at the bank. They're [staff] pretty surly. (...) Rude, sort of unfriendly, you know it's looking down their nose at you. (...) In a post office they're, they [staff] tend to be friendlier, a lot friendlier than in a bank.

Andrew, Glasgow Advice Bureau

This critique did not apply to the banking sector as a whole. Rather some respondents who criticised banks for being unfriendly, felt that it concerned some bank staff and branches or applied to bigger branches in general. In addition, the experience of one respondent who had received tremendous personal support from his bank in terms of utilising his bank account and managing finances belies the notion that banks are in all cases unhelpful and unsympathetic, particularly when a personal relationship existed between bank staff and customers. Ambiguous findings were also evident in relation to

¹⁰⁷ These were still receipt by a few people in the sample for some types of benefits.

respondents' experience of over-indebtedness, with some having a more helpful relationship with banks than others.

Nevertheless, negative perception of banks could influence non-use of bank accounts, as this interviewee describes:

So I've been a bit dubious. I says "well, I wouldnae allow you any money put into a bank". That means your benefits stopped. Then you're losing, don't you? Things like that. I'm not sure how it works so I wouldnae go near them anyway.

Benjamin, financial education workshop, Glasgow Advice Bureau

His mistrust of banks was based on the experience of family members; particularly on the experience of his daughter whose benefits stopped after she deposited a large sum of money at the bank. The example of Benjamin highlights that, along with negative direct encounters with banks, second-hand experiences (i.e. the experience of relatives or friends or information transmitted via the media) played a crucial role in influencing attitudes, and thus use of mainstream financial services. In addition, lack of financial literacy meant that respondents had little opportunity to compare second-hand information with alternative financial knowledge, and therefore to challenge existing beliefs. Despite the provision of formal financial knowledge via the agencies, negative attitudes to banks could be hard to overcome through the provision of financial education alone. Similarly, feelings of mistrust were still apparent in the sample after contact with the agency. One effective method of overcoming these feelings was through challenging these directly by bringing people into contact with mainstream financial institutions. This will be discussed in detail in Chapter 7.

Physical accessibility of banks: Respondents generally did not mention that bank branches were physically inaccessible as most branches could be reached by public transport. However, living at a distance from a bank branch could nevertheless be an issue for the elderly, particularly in the case of limited mobility, and those with small children. This is confirmed by other research (Kempson and Jones, 2000). In addition, when living on a low income, getting to a bank branch by public or personal transport can be relatively expensive.

(...) it was easier to open the post office account [than use bank account] because on a Tuesday morning when I get my benefits we're [she and her partner] usually no money left on a Tuesday morning. So we don't have any money for petrol to go to the bank to get my benefits out. So that's why it's better in the post office.

Cornelia, Waterside Housing Association

Therefore, income had a direct influence on their ability to access banking services; in particular since no cash machine was available in their village. Living in rural areas, getting to a bank branch was generally more complex and time-consuming since public transport services run less frequently than in urban areas and access to local bank branches was further restricted through limited opening hours.

For at least four respondents, the accessibility of post offices partly determined their decision to use POCAs or pay household bills at the post office. As suggested in the literature (see for example, Kempson and Whyley, 1999b), it would seem that the geographic accessibility of financial institutions could be an important factor in explaining why people are reluctant to engage with mainstream financial services. Not surprisingly, this was also the case after contact with the agency and in the longer term. In addition, more tailored schemes to promote financial inclusion, such as the savings and loans scheme of Waterside Housing Association, also presented barriers in terms of geographic exclusion, as one respondent who joined the scheme and who lived in a rural area described. Not surprisingly, this problem, and therefore non-use of the scheme, was still current at the follow-up interview. Issues of access, therefore, need to be considered in designing successful financial inclusion initiatives.

Overall, given the widespread positive connotation of the post office in the sample, it was not surprising that a number of respondents who actively used a bank account nevertheless preferred the post office for paying bills. In addition, it was not unexpected that the preference for using POCAs and post offices had not changed for most respondents after contact with the agency, as well as in the longer term. For some respondents who lived in a rural area, being able to deal with finances at the local post office represented a lifeline, not only in terms of dealing with finances, but also in terms of receiving informal help and support. The case of a middle-aged couple, who also lived in a rural area, was particularly revealing. They built up a personal relationship with the owners of their local post office. This enabled them, for example, to purchase

groceries when they had run out of money. It is hard to imagine that many mainstream financial institutions would provide a similar level of support.

The theme of the appropriateness of basic banking services when living on a low income is continued in the accounts of those who made no or limited use of automated banking.

6.2.3 No or Limited Use of Direct Debit

A key concern of the government in promoting access to bank accounts is that account holders would be able to access services that are only available through paying direct debit (HM Treasury, 2004) and to take advantage of discounts available for paying utilities and other services automatically (HM Treasury, 2007a).

Among those respondents who had and actively used a bank account, the majority (21 out of 29) made no or only limited use of direct debit. Of those, about half (11 out of 21 respondents) did not use the facility at all. This was also true in the longer term, with 12 (out of 17) active bank account users making no or limited use of direct debit at the time of the follow-up interview; hence suggesting a only moderate impact of the agencies in encouraging use of automated banking. Although non-use of direct debit or cancellation of this facility were not necessarily related to apparent or anticipated difficulty with using automated banking, in the majority of cases it was. A key issue for those who made no or limited use of direct debit, and, in fact, for those who made no use of their bank account, was the fear of losing control over their finances. This factor is explained in detail below.

Fear of losing control: The fear of respondents of losing control over their finances forms part of the explanation why they did not use direct debit at all or only to a very limited extent. As is suggested by a large body of literature (see for example, Kempson, 1996; Kempson et al., 1994; Kempson and Whyley, 1999b), people living on low incomes prefer to handle a weekly cash budget in order to keep tight control of their money. The evidence in the sample was no difference. In most cases, managing money in cash and on a weekly or fortnightly basis was the preferred option. In contrast, monthly bills were regarded as unaffordable since most respondents felt that they were unable to budget for them, as this respondent explains:

I couldn't afford to pay it [bill] like every two weeks or every month. See, I get paid weekly so ... I just pay my bills when I get paid when I get my benefits, so...

Lucas, Waterside Housing Association

One clear advantage of handling a cash budget was the perceived greater control over money. Respondents felt that paying bills in cash was more flexible as they were able to adjust the payment of bills to their respective financial situation, postponing, for example, payments by a day or two without incurring extra charges as would be the case with using direct debit. They were also able to prioritise one bill over another, rather than paying them on a set day. The theme of fear of losing control clearly comes up in this comment:

You decide what you want to pay and when you want to pay it. It not got to be done on a set day like, well direct debits have.

Julia, financial inclusion programme, Glasgow Advice Bureau

Interestingly, these concerns were also current for people who made limited use of direct debits. In this case, people liked the advantages of direct debit for money management since paying bills by direct debit ensured that bills would be automatically paid on time. On the other hand, however, they liked the control that paying larger bills or those with varying amounts on a cash-based basis gave them. This, again, suggests that people make rational choices with regards to financial services and chose amongst the best available or perceived options.

The imposition of banks charges for failed direct debits, in particular, was a major concern for respondents, both for users and non-users of direct debit. People's fear of losing control in this case was not unfounded. At the time of the interviews, banks generally charged more than £30 for unpaid direct debits, with some charging £38 or £39 respectively (FSA, 2005). These charges could contribute to respondents' debt problems, as in one case where charges alone accumulated to £500 worth of debt. In turn, problems with direct debit could be exacerbated by debt problems since respondents had to pay additional money out to creditors. Therefore, to regain control over finances, five respondents, including Janice, had cancelled direct debit arrangements in the past.

I don't pay anything by direct debit [anymore] because if you didn't have the money in the bank as well you also got late payment charges added on to your account. So it was not just ten pounds anymore at the bank it's 35 pounds for late payment charges for your own account [laughs].

Janice, Financial Inclusion Project

This fear of losing control, to some extent, could be overcome by the provision of financial education, but many had remained wary about using the facility despite contact with the agency. This could be largely ascribed to respondents' remaining on a low income. Therefore, the provision of financial education has only a limited impact if financial services are perceived to be inappropriate by potential users, and with preferences indicating the wider context of banking exclusion. Both, preferences and the underlying causes of these, need to be taken into account when promoting banking inclusion.

Influence of other policy areas: Use of direct debit was also influenced by other policy areas, such as social welfare. Major household bills, such as rent and council tax, at least in part, are paid directly by the state for those on qualifying benefits, while fuel bills were often paid by using prepayment meters. This was also evident in the sample.

Well, I don't really have anything else that, that I could use for direct debit [except mobile phone bill] because my rent is paid for me (...) the housing benefit and whatever. So there's no other reason for me to use direct debits because there's no other bills.

Anna, financial education workshop, Glasgow Advice Bureau

Therefore, having access to direct debit and improving financial knowledge have little practical impact when people lack the opportunity to meet major household commitments themselves. This highlights the inconsistency of government financial inclusion policies, which on the one hand aim to promote autonomy through financial services and financial education and on the other hand do not enable individuals to fully unfold their potential. The same accounts for POCAs, which hardly promote autonomy

because of their very limited functionality, and which are unlikely to bridge the gap between low-income users and the financial mainstream.¹⁰⁸

Choice was further restricted by the widespread use of prepayment meters in the sample. Although many users of gas and electricity prepayment meters preferred this ‘pay-as-you-go’ method of paying for larger, irregular bills paying since this gave them more control, they were often not presented with a free set of choices. For instance, prepayment meters were already installed when people moved into social housing. In addition, one respondent who wanted to switch to an alternative method of payment found that it was too costly to have the meter taken out by the utility company.

This section highlighted the apparent and perceived difficulty with regard to using mainstream banking services. The data suggest that many users of bank accounts and POCA users largely operated a cash-budget. There were few people in the sample that had set-up automated payment for all or most of their bills. Their experience is reviewed in the next section.

6.2.4 *Comprehensive Use of Direct Debit*

Only eight people in the sample used direct debit to pay most or all of their bills. Respondents who would otherwise find it difficult to manage finances, in particular, judged the use of direct debits as positive, as this respondent, a 68-year old woman with walking difficulties, explains:

Well, I find it [using direct debit] easier because you don’t need to go – it comes out automatic. And you don’t need to walk to this place, to that place to pay your bills, you know. I find it further away. (...) You don’t need to worry about in case you missed the date. It comes off automatically you know.

Caroline, Financial Inclusion Project

¹⁰⁸ Since the fieldwork took place, payment of Housing Benefits has been changed to be paid to claimants directly rather than landlords. Two of the intentions of the government for the change were, rightly, to promote personal responsibility and empower recipients (Irvine et al., 2007). In terms of banking, the functionality of the successor of the POCA when the contract with the post office ends in early 2010 was not improved, hence, presenting a missed opportunity to promote financial inclusion, as Thiel rightly suggests (Thiel, Undated).

Despite occasional bank charges for unpaid direct debits, Caroline and others with similar difficulties with managing money manually felt that the benefits of using the facility outweighed its negative aspects. This confirms suggestions in the literature that handling a cash budget can make paying bills more complex and time-consuming (see for example, Collard et al., 2001; Kempson and Whyley, 1999b; McKay and Collard, 2006). This was particularly true for respondents with health issues (e.g. depression) or general budgeting difficulty (for example because of a learning disability). However, the impact of comprehensive use of direct debit was not always positive. As discussed before, the use of this facility could have negative consequences as well. This led two respondents who used automated banking comprehensively to cancel their direct debit commitments after contact with the agency. Why using direct debit had positive consequences for some when for others it had not, was largely explained by people's individual situation. Generally speaking, using the facility had clear advantages when people found it difficult to handle a cash-budget and when they were able to use direct debit for bills that they perceived to be affordable to pay on a monthly basis. The impact of improving banking inclusion are discussed in-depth in Chapter 7.

6.2.5 Summary

In conclusion, the data on banking highlight some links to social inclusion. For example, one factor associated with opening and *using* bank accounts was people's employment status. While access to bank accounts did not seem a big problem in the sample with most people having one, making effective use of it caused more concern; confirming that having a bank account is not necessarily an indicator of (full) banking inclusion since effective usage of accounts can be restricted. This was not only related to the imposition of bank charges, but also due to the lack of knowledge, and thus, high levels of insecurity in the sample.

6.3 Credit Exclusion

Alongside access to banking, promoting access to affordable credit is one of the government's central financial inclusion aims (HM Treasury, 2004, 2007a). Respondents' experience of credit exclusion prior to contact with the agency is reviewed in this section, starting off with people's experience of total exclusion (i.e.

refusal of credit) and moving on to examine the types of credit people had accessed and how they used these.

6.3.1 *Direct Exclusion*

The vast majority of people in the sample (34 out of 41 respondents) had had active credit commitments prior to contact with the agency. This indicates that total exclusion from credit, in general, was not an issue for most respondents. However, about a third (11 out of 34 respondents with debts) used sub-prime sources of credit only, which indicates that access to other credit options, including mainstream credit, might have been an issue for some people in the sample. In fact, at least five respondents were refused credit outright when approaching mainstream financial institutions. In addition, two respondents were refused the types of credit requested. Instead, they were offered alternative forms of mainstream credit which the respondents themselves did not think was appropriate. Therefore, while not a problem for most, direct exclusion from credit was experienced by some people in the sample. Moreover, one respondent was denied a doorstep loan because of a previous history of consumer credit arrears at his address. Although this barrier was not caused by the respondent himself, it nevertheless demonstrates the devastating effect certain localities can have on financial exclusion.

Those who were refused mainstream credit outright felt that the reason they were rejected was likely to be due to their personal circumstances (e.g. not working, single parent) or poor credit history. One respondent, meeting an outright refusal, reported that he borrowed from sub-prime lenders.

[And what happened then when they [bank] didn't give you an overdraft? (...)]
[sub-prime finance company] at the end bits and pieces, other loan companies who weren't so strict on the procedure. Didn't check into wage slips and – you, you just slip into a deep hole (...).

Henry, budget service Caledonia Credit Union

Although this comment somewhat confirms claims in the literature that exclusion from mainstream credit can lead to the use of more expensive types of credit (see for example, Berthoud and Kempson, 1992; Kempson et al., 1994; Rowlingson, 1994), the number of people who reported sub-prime credit use in this context was small in any case; making it difficult to establish a clear link between the two.

6.3.2 Self-exclusion

Most of those who used sub-prime credit had not approached banks because they believed they would be unsuccessful with their application. This was for example expressed by Lisa, a single parent of three.

I've never had any problems wi banks. I mean I've had loans with the bank before when I've been working. (...) But I never ever thought about trying a bank to get a loan when I was, when I've not been working. (...) the bank do ken on a Sunday I've no got any money in my bank account. I'm waiting my money coming in the bank account on Monday.

Lisa, Money Advice Centre

Although it was not clear whether they would be able to obtain mainstream credit should they try, it was likely that many sub-prime credit users would have found it difficult to access mainstream credit because of low income, the exhaustion of available mainstream credit options or lack of a bank account.

6.3.3 Voluntary Credit Exclusion

In contrast to those respondents who experienced barriers in accessing credit, others had made an unconstrained choice not to borrow. Seven respondents had no active credit commitments before contact with the agency. This group expressed a strong discomfort in relation to using credit and preferred to manage financially without getting into debt; though two of them had used credit in the past and credit had been widely used in the household of another respondent (though in the name of his wife). While attitudes influenced the use of financial services, such as credit, this is not say that respondents who had active credit commitments did not share similar values, but rather that, for various reasons, they had found it difficult to uphold these values when living on a constant low income. In fact, the majority of those who had active credit commitments prior to contact with the agency disapproved of borrowing, but felt that they had little choice in the matter. Moreover, the fact that even those without debt and who disapproved of borrowing had used credit at some point in the past indicates, to some extent, that it was not easy to do without borrowing when money was tight. Also saving did not necessarily prevent respondents from either borrowing or financial difficulties because savings tended to be small. This is reflected in the findings:

amongst non-savers and savers the need to borrow was great and debt problems frequently experienced prior to contact with the agency.

However, there was some evidence in the sample that informal help through relatives, friends or neighbours could help respondents to manage financially and possibly avoid borrowing (more) from commercial credit providers, as this respondent explains:

When I paid all, all my payments they're at the start of this month you know they all come off at the start of this month it left me in arrears, which meant I had to borrow money from my brother, but he's usually quite good. He usually waits for the rest of the month and then I try and pay him back over the month and then the same cycle pattern happens the next month.

Raymond, Community Help Centre

Although there was no evidence in the sample on what happens when support from family networks failed, these networks, assumably, played a central part in respondents' struggle to manage financially on a low income. The above comment suggests that this also was the case in the longer term. In addition, there was evidence of great reciprocity, with people helping out one another when possible.

6.3.4 Use of Inappropriate Credit

Borrowing from lenders other than high-street financial institutions is often used as an indicator of financial exclusion in the literature and among policy makers (see for example, HM Treasury, 2004, 2007a; Kempson and Whyley, 1999b; Kempson et al., 2000). The data show that use of sub-prime lenders was widespread in the sample. All in all, 23 respondents used such sources prior to contacting the agency, usually in combination with other sources which, most frequently, were mainstream credit, followed by borrowing from family and friends, the Social Fund and credit unions.¹⁰⁹ This confirms the findings of other research (see for example, Berthoud and Kempson, 1992; Kempson et al., 1994) that people living on low incomes are often able to make use of a wide range of sources of credit, including mainstream credit. However, it

¹⁰⁹ Information about the Social Fund was not covered in all interviews.

challenges to some extent the understanding of poor people by policy makers as being generally unable to access mainstream credit (see for example, HM Treasury, 2004).

Mainstream credit: The data show that 18 respondents had active credit commitments with mainstream lenders (six of those as only source) prior to coming into contact with the agency. In this case the use of credit cards was most common, with 14 respondents having had some money outstanding on credit cards.¹¹⁰ This was followed by bank loans and overdrafts. It was evident that the majority (13 out of 18 respondents) of those who used mainstream credit had started to use mainstream credit when in paid employment. Nevertheless, five respondents had accessed this source when on benefits. Some of them expressed astonishment that they were able to borrow from the high-street and felt that it had contributed to their financial difficulties as one respondent, a single woman living on under £100 a week, describes:

So I went down [to bank] to see if I could get an overdraft and they said I actually qualify for a loan (...) I think it's shocking. I should have never got the loan. I just think they could have found another way to help me.

Mary, budget service Caledonia Credit Union

This suggests that mainstream credit was not generally an appropriate option for people living on low incomes and as such did not promote financial inclusion in the sense of promoting access to *appropriate* financial products. Moreover, as Mary's and other examples illustrate, banks did not always offer the product requested (in this case a bank overdraft) or base their decision on a personal assessment of respondents' situation (particularly in the case these change). This is a fact that is widely ignored in the financial inclusion literature, in which financial exclusion is mainly depicted in terms of lacking access to mainstream credit. This study shows that people's experiences are more varied than that, with many people feeling that mainstream credit, as it is offered to people on low incomes, being not appropriate. The consequences of this will be discussed later.

¹¹⁰ It was not clear, in each case, whether respondents used credit cards offered by mainstream or sub-prime provider (with the latter being a very recent development). However, the research demonstrates that in many cases credit cards, regardless of the provider, were not an appropriate type of credit for interviewees.

Sub-prime credit: One policy argument for the promotion of affordable credit is that using sub-prime credit, particularly home credit, is expensive. Another concern is the lending practices of some lenders, which are argued to deliberately lead clients into more debt (HM Treasury, 2004). In the sample, both assumptions are evident to some extent.

Amongst sub-prime credit users, home credit and catalogues were by far the most common types of sub-prime credit used. Other sources included store cards, hire purchase agreements and pawnbrokers. The majority of those who borrowed from home credit companies felt that they used doorstep lenders out of necessity rather than choice, as this respondent described during the interview.

(...) their [doorstep lender] interest rate is astronomical. It's expensive. It's extortionate, but it's got to be done, ain't it. So ... I wouldn't get in a bank loan, things like that. I don't think I would get one. It's the only place I could get loans.

Antonia, financial education workshop, Glasgow Advice Bureau

This lack of perceived availability of alternatives was reinforced through the ready availability of this type of credit, which was directly promoted on people's doorstep at times when loans were in great demand (usually Christmas and summer), and through the widespread use of home credit within respondents' social networks of family and friends. This is also suggested in the literature (see for example, Collard and Kempson, 2003; Ford and Rowlingson, 1996) and, in the sample, is illustrated by the following quote.

I started using the catalogue [laughs] – My mum had one when we were growing up and that was how you've done things. If you wanted something you asked your mum to get it out the catalogue. (...) Friends all have one and they'll get a catalogue. And you do, you sit and look through it and "oh, that's lovely. Oh that's nice. Oh, just order me that". That's how you... [start using catalogues]

Emma, financial inclusion programme, Glasgow Advice Bureau

In this context, using sub-prime credit was often part of a way of life for respondents, with catalogues, for example, being used by parents and then passed on to children. In addition, as confirmed in the literature (see for example, Byrne et al., 2007; Jones, 2001;

Rowlingson, 1994), users of home credit were often recruited through family members and friends already using this source. This suggests that, overall, tradition and routine play an important role in explaining individuals' behaviour, rather than conscious individual calculation, as Schütz and Luckmann(1989) propose.

The costliness of using sub-prime credit was evident in many cases.

We borrowed 200 pounds. This is about two years ago (...) and it was for Christmas shopping. And a neighbour used the Provident and recommended us to the lady. (...) Gave us the cash then and there, explained nothing about repayments and we were so glad to get the money we never asked. (...) It was just under 1,000 pounds we had to pay back and it was a nightmare.

Cornelia, Waterside Housing Association

This comment, though extreme, exemplifies many other examples in the sample that suggest the relatively costliness of using these sources. Users, like Cornelia and her partner, were often not aware of the total costs of the arrangement. Credit arrangements were viewed, not in terms of APR, but in view of the weekly/fortnightly amounts that needed to be repaid. This meant that credit arrangements could seem affordable when the total amount that needed to be repaid indicated high interest rates.

Seventy-eight quid is the interest, I know, but I'm no bothered I can afford it. I can afford that to pay. (...) It's only a tenner a fortnight. You know, that's all it is. It's nothing.

Kevin, budget service Caledonia Credit Union

There were other examples in the sample where respondents paid considerable sums above the original purchase price (in case of hire purchase); though this was not necessarily perceived as 'extortionate'. One respondent, despite the evident costliness of using this source, perceived hire purchase as a quick way to replace broken items with relatively affordable monthly repayments. Similarly, other users of sub-prime credit mentioned the advantages of using catalogues. This suggests that sub-prime credit, despite its costliness, was perceived to have clear advantages over other types of credit. Most importantly, using sub-prime credit was perceived to be an unbureaucratic, informal and quick way to access small sums of money. In the literature, low-income households' preference for this type of credit has been increasingly recognised in recent

years (see for example, Ford and Rowlingson, 1996). However, it needs to be emphasised that this preference was often not based on a well-informed decision. Knowledge of other (cheaper) sources of credit, such as credit unions, was often scarce, and the use of sub-prime lenders firmly embedded within their social networks. As a result of the latter, it could be difficult for respondents to find out about cheaper or consider alternatives.

6.3.5 Over-commitment

The definition of financial exclusion encompasses both access to and use of mainstream financial services. In the previous section, access to different types of credit were discussed. Here an aspect is considered that is often neglected in discussions about credit exclusion: *how* people make use of the credit sources available to them.

Borrowing behaviour: Most people who borrowed from sub-prime lenders used this source of credit responsibly in the sense that they had only borrowed small amounts of money each time they used this source, as one respondent explains:

I don't go over my head or anything like that. I know what I'm doing and what I can afford and I don't go over it.

Antonia, financial education workshop, Glasgow Advice Bureau

Despite the costs of using home credit, using this type of credit did not cause problems for her and a few other respondents.¹¹¹ However, over time, people often became over-committed as they needed to borrow more on top of the loans already obtained. This was partly due to the fact that lenders offered more, but also because of the costs of sub-prime credit, particularly doorstep loans. The costs of sub-prime credit was not generally not perceived in relation to the weekly repayment of credit which were felt by respondents in the majority of cases to be affordable. Rather the high interest rate of this type of credit meant that it would take longer for respondents to clear debt, increasing the likelihood that they would need to borrow again before paying off the original loan.

¹¹¹ Seven respondents had active sub-prime credit commitments, but reported no difficulties with repaying these.

As a result, respondents' disposable income was further reduced, which had led some into a cycle of borrowing and over-indebtedness, as one respondent describes:

I got a loan [from doorstep lender] and then got another one and another one and that's how it kept on piling kinda kept on piling up and piling up. Each time I got a loan out – I like got three loans off of them all together (...) so each time the interest on each of these loans was piling.

Mark, Financial Inclusion Project

While respondents generally borrowed small sums of money from sub-prime lenders - usually between £100 and £200 -, the sums borrowed on mainstream credit tended to be larger, with several hundreds or even thousands of pounds worth of debt on bank loans, credit cards or overdrafts. As was pointed out before, mainstream credit was used by some respondents when they were on benefits. For them, the ready availability of relatively large sums of money when living on a constant low income explained why this group of respondents over-spent on this type of credit. This is, for example, explained by this respondent, a single parent of three:

(...) when you've got three kids and they need things you would just say "alright, well I'll take it [credit card]" and you think "I'll no get into too much with it [credit card]", but it doesn't work out like that. "Well, I won't use it for this. I'll only use it for that", but you end up that you do use it and "I'll just put it on the credit card and pay it back".

Emma, financial inclusion programme, Glasgow Advice Bureau

This was also true for the use of sub-prime credit.

(...) these companies come to your door. They don't do a credit check. See you say to yourself "well it's your own fault for not doing a credit check", but it's, it's not like that. It's just, you just feel like "oh, well" – it's hard to say "no" for some reason. (...) It's just, you know, you're in that situation [low income]. You're not thinking about "no, this gonna cost me this. This gonna cost me that". You just sit and think and go "I need. The house needs. The kids need. There're other bills that I could pay off with that" and that's all you think about because 110 pounds you get off the government that you get for your income support and things, it isn't a lot. It really isn't.

Janice, Financial Inclusion Project

This comment clearly highlights that low income was an important factor in explaining over-commitment on consumer credit. This did not only apply to the use of sub-prime, but also mainstream credit. Therefore, while low income accounted for the fact that interviewees often found it difficult to manage without borrowing (after contact with the agency and in the longer term), it only partly explained why they used a particular type of credit and how they used it. In this context, as discussed above, lack of knowledge of (affordable) alternatives, low awareness of the costs of borrowing as well as difficulty with handling finances more generally (sometimes exacerbated by mental health problems or learning disabilities) were also important factors in explaining respondents' borrowing habit.

Lending practices of lenders: Another major factor in explaining over-commitment was the lending practices of some lenders. In respondents' view it was especially the ready availability of credit from both sub-prime and mainstream sources without taking into sufficient account their personal circumstances and ability to repay (e.g. high minimum loan sums or credit card limits) that led them to take on more credit than they could afford.

They're [doorstep lenders] so easy for you to get. That's the biggest thing. They don't do no credit checks. They don't ask how much income you bring in a week. They don't ask anything. They just say "would you like 200 pounds now and you don't pay anything till two weeks". And you think "200 pounds in my hands, right now and I don't pay nothing for two weeks and then it's only five pounds a week I can afford that" (...) it can buy you a lot of things when you're on Income Support. It's like a luxury.

Janice, Financial Inclusion Project

In addition, the imposition of penalty charges for late or part payments, which was common practice among sub-prime and mainstream credit providers, meant that debt often became a major burden over time. In this respect, respondents felt that using mainstream credit could similarly cause over-commitment despite its generally lower interest rate in comparison to sub-prime credit sources.

Everybody wants to give you money. It didn't matter where you went and you just went "well, I'm on benefits" and they went "So? What're you getting? Right, I'll give you x-amount". There wouldn't be any "oh, no you're on benefits" by a bank sort of.

Michael, budget service Caledonia Credit Union

This is an important finding since it confirms that access to mainstream credit *per se* does not promote financial inclusion. In fact, at least five people in the sample, including Michael, considered mainstream and sub-prime financial institutions as being relatively similar in the way they lend to people. This seemed to be supported by the data: both sources of credit equally contributed to respondents' debt problems. In fact, it was a combination of both sources that often caused financial difficulties in the sample, rather than the use of sub-prime credit alone.

In contrast, others who had been credit union members before contact with the agency and who became a member afterwards felt that this type of organisation lent more responsibly than other lenders. Two aspects were important: the availability of small loans and the consideration of individuals' personal circumstances when offering credit.

I think they [credit union] help you more. You know it's there if you need a loan but just a small loan (...). They give you small loans, which is easier for you to manage to pay back. That's the beauty of it, you know.

Caroline, Financial Inclusion Project

(...) if you want to borrow you have to sit and have an interview with them [credit union]. So it's not just a case of "can I have this money?" "Oh, yes you can have that money. You'll get the money today". (...) they'll make you think "do you really need it?"

Janice, Financial Inclusion Project

The last comment also highlights the educational element of credit unions and their role in supporting members in the community rather than being a mere loan facility. Overall, the findings suggest that credit unions, through their provision of small-scale loans and personal approach, were similarly responsive to the needs of low-income consumers than sub-prime lenders, with the difference that credit unions lent more responsibly and at an more affordable rate of interest; hence making them a more appropriate source of borrowing. This will be discussed in detail in the subsequent chapter.

6.3.6 Summary

In summing up the credit exclusion section, the following points are important. Only a small number of respondents were refused credit directly by mainstream financial institutions. Most non-users of mainstream credit and those who had exhausted mainstream credit options had not approached banks for credit because they thought (probably realistically) that they would be refused. Other people in the sample were able to obtain mainstream credit despite living on a low income: a fact which is often ignored in the literature in the context of discussing financial exclusion. Similarly, it is often not acknowledged that both sub-prime and mainstream credit sources can be inappropriate for low-income users; though for different reasons. The evidence thus suggests that mainstream credit not only needs to be accessible, but also *appropriate* to the needs and circumstances of low-income consumers. Over-commitment was one of the central reasons that respondents got into arrears on consumer credit and other household commitments. This and other causes of over-indebtedness, including its links to other aspects of financial exclusion are discussed later.

6.4 Savings Exclusion

The promotion of savings and building of assets are important aspects of the government's financial inclusion strategy (HM Treasury, 2000, 2004, 2007a). For this purpose the government promotes the use of formal savings products as well as financial education.

The data show that about half of the sample (22 out of 41 respondents) were engaged in some type of saving activity at the time of coming into contact with the agency. However, saving activity did not necessarily entail the use of formal savings products such as a savings account with a bank or building society. Rather, different degrees of savings exclusion were identified. These ranged from lacking or not using any formal savings products to actively engaging in the process of adding money to savings accounts. Respondents who lacked or did not use formal savings products often saved informally or were not involved in any saving activity.

6.4.1 Formal Saving

The number of respondents with formal savings products was small, as was the number of people who made use of savings accounts. About ten respondents had a savings

account with a bank, the post office or a credit union prior to contact with the agency. However, only four made active use of these. The data, to some extent, indicate a relationship between making use of automated banking and having formal savings products: with the exception of two respondents - one with no bank account and the other with a dormant bank account - all other respondents with formal savings products were active users of mainstream banking services. This suggests that some engagement with the financial system could promote further inclusion. However, the fact that many of those who had savings products did not engage in formal saving activity highlights the narrowness of perceiving financial inclusion solely in terms of access to financial services and products. The major reasons for people not using savings accounts were low income and difficulty in budgeting. In the latter case, respondents might have had enough disposable income to put some money aside, but nevertheless found it difficult to budget effectively, hence there was no leeway for saving activity. This is an important finding since it demonstrates that there was some scope for respondents to improve saving activity despite living on a low income. However, low income remained a major obstacle. This did not only prevented the effective use of savings account, but saving activity in general, after contact with the agency and in the longer term.

6.4.2 Informal Methods of Saving

In contrast to using formal savings products, informal methods of saving were widespread amongst those who saved prior to contact with the agency. Overall, 18 (out of 22 savers) respondents saved money that way prior to coming into contact with the agency. Informal methods included putting money away at home in jars, boxes, envelopes or piggy banks, buying savings stamps at the post office, overpaying prepayment meters, paying into Christmas savings clubs or hamper schemes, giving money to a third party to look after (usually relatives, but also work colleagues in one case) and letting benefits and additional income mount up in accounts¹¹².

¹¹² This last strategy of saving informally was ambiguous in some cases, as people let income mount up only for a very short period of time (e.g. in some cases only a few days till the next bill was due). Although this was treated as an act of informal saving in the context of this research, it was not always regarded as saving activity by respondents, and hence might have been underreported in the sample.

Saving money informally was an integral part of many respondents' money management strategy. It helped to meet the costs of regular household commitments, but also larger one-off expenses (e.g. household items, Christmas, birthdays). For some, using different methods of informal saving (e.g. buying savings stamps, putting money aside in different envelopes) helped to allocate money to different purposes. One example is the 'treat jar', which was used by one respondent to save for special treats, such as hair cuts.

Nevertheless, one disadvantage that was sometimes mentioned in relation to using informal methods of saving was that it was easy to 'dip' into the money when saving at home. As a strategy, to avoid this to some extent, some respondents would give savings to a third person to look after, as this respondent describes:

I give it to another person [at work] so I've not got it. And he takes it home and he keeps it in a tin. (...) If I kept it I would spend it on other things, maybe something for the house ... new pair of shoes, something like that.

Andy, Financial Inclusion Project

Overall, the data illustrate that many people in the sample preferred informal methods of saving. There were two factors that particularly explained this preference: the flexibility of putting money away this way and the informality of this strategy. Respondents who saved this way generally felt that it was a convenient way to put some money aside for future use. While they were not generally adverse to formal methods of saving – and some paid money into banks once they had saved enough – they generally felt that it was too time-consuming and too much a hassle to frequent banks to pay in small sums of money for saving purposes, as this respondent describes:

Yes, in my wee jar [laughs]. Well, I can't run to the bank every day [interviewer] with a two pound coin. They just get into a jar and if there's so much there I just pass it onto the bank like that.

Anna, financial education workshop, Glasgow Advice Bureau

Some respondents who saved informally had similar feelings to those relating to banking, feeling stigmatised and looked down on by banks because they were only able to put small sums of money aside. This perception of banks generally contrasted with respondents' experience with credit unions. As will be discussed in detail in the

subsequent chapter, these encouraged small-scale saving and were more approachable for low-income consumers.

6.4.3 Longer Term Saving

One key aspect of the government's saving strategy is that low-income households can build assets, which implies the longer term accumulation of funds. In the sample, there was some evidence for longer term saving, particularly some parents saved into savings accounts for their children's future. However, the majority of the 14 respondents who saved money formally or informally in the longer run saved it to meet the costs of Christmas, buying school uniforms, going on holiday or purchasing larger household items (e.g. washing machine, cooker, carpets, furniture). This meant that money was often not saved for respondents' future well-being (e.g. saving up for retirement).

It was notable that, despite the low income of respondents and the problems they often experienced in terms of managing financially, saving for Christmas was a key priority, particularly for households with younger children. These households tried to ensure that their children would not miss out during the festival period, which often left them with little or no capacity to save for other purposes. One popular strategy in the sample to build up savings for Christmas was Christmas savings clubs or hamper/voucher schemes¹¹³. The key advantage of these schemes was perceived to lie in the possibility of paying in small regular amounts over the course of the year, without being able to dip into the money if tempted.

(...) when it comes to Christmas I paid all year like I've paid out all year for the shopping vouchers so that I've already paid for Christmas before Christmas comes. (...) So at Christmas I don't worry. I don't borrow money because I've paid in advance. (...) So all year you pay so you're not in debt. Ten pound a week I've been putting by. So it's like at for Christmas I've got 400 pound.

Alison, financial education workshop, Glasgow Advice Bureau

¹¹³ These vouchers can then be used at certain shops for Christmas shopping.

Alison's opinion is shared in the experience of other people in the sample who used such schemes. Recent research about Christmas savings clubs (Opinion Leader, 2007) confirms the popularity of these schemes for low-income consumers. Their attractiveness lies particularly in the possibility of saving small sums over the course of the year. In addition, these schemes are very informal, and many operate door-to-door collections of funds: a factor that plays an important role in explaining the popularity of home credit loans (see for example, Ford and Rowlingson, 1996; Leyshon et al., 2006). By contrast, few people in the sample saw the disadvantages of using informal ways of saving, such as the impossibility of earning interest on savings, the security risk of putting money away at home or the lack of consumer protection when saving with Christmas prepayment companies. In fact, one respondent lost all her savings when the company with which she saved for Christmas went bust. This suggests that more information is needed in order to make consumers aware of the risks informal methods of saving can entail, and of alternative ways of saving: a gap which the government tries to tackle through targeted financial education initiatives. However, given the targeted service of these schemes to the needs of low-income consumers and the convenience of informal methods of saving in general, the provision of financial education alone may not make a big difference to the use of this type and, in fact, other forms of informal saving.

People who tried to save money over the longer term frequently described the difficulty of accumulating any meaningful sums of money over a longer period of time, with money often being needed for household expenditure. Low income was an important factor that explained people's difficulty in accumulating funds, also in the longer term, as the follow-up interviews show. Given the precarious financial situation of many respondents, it was not surprising that a large number of people in the sample (19¹¹⁴ out of 41) said that they did not put any money aside; though some of them had managed to do so in the past. For the latter group, changes of circumstances, in particular those that had negatively affected their financial situation, meant that they were no longer able to engage in saving activity, illustrated by this statement of a single, at the time of contacting the agency, unemployed woman.

¹¹⁴ It is possible that this number is over-stated and that more people employed informal methods of saving which were not always recognised as such by respondents.

I have previously had ISAs and things like this, but... (...) by reducing my hours [at work] voluntary, which I did, it actually did away with being able to physically take money from one account and put it into another account purely for savings (...).

Louise, Financial Inclusion Project

Therefore, a basic requirement for savings inclusion – having the funds to save – is not fulfilled. Nevertheless, savings inclusion also depended on people's perception of their ability to save. Although this was influenced by their actual ability to put money aside (i.e. low income, over-indebtedness), perceptions nevertheless played a crucial role. These were also shaped by respondents' inability to budget. For example, finding it difficult to make money last meant that respondents also lacked confidence in their ability to save. In addition, saving activity could have a general low priority, which was partly influenced by people's perception that they would be unable to save because of low income. This is an interesting finding since it suggests some scope for encouraging people to save, and thus for financial education to make a difference. However, this is likely to be limited through people's lack of funds.

6.4.4 Summary

The data on savings exclusion show great need for action: most people in the sample did not have or use any formal savings products, rather they preferred to save informally or did not engage in saving activity at all. Longer term savings and the accumulation of larger sums, in particular, were problematic. Alongside non-engagement with the financial system, this can have consequences for people's long-term financial security and welfare, access to other savings and investment products and the benefits associated with using formal savings products (e.g. interest). The data show that low income was perceived as a major barrier to saving. However, people's attitude and perception were also crucial.

6.5 Insurance Exclusion

The principal focus of the government in terms of insurance exclusion is on the provision of home contents insurance (HM Treasury, 2004, 2007a). This is where the research concentrates as well. Overall, 17 (out of 33 respondents)¹¹⁵ said that they had insurance cover. This is consistent with findings of the latest MPSE report which suggests that about half of the poorest households do not have home contents insurance cover (Palmer et al., 2007). Of these, 10 lived in public sector housing. This suggests that some of those who were most in need for insurance because of a higher risk of crime in deprived areas (Pantazis, 2006) and least likely to afford to replace stolen or damaged property had insurance cover.

Not surprisingly, having home contents insurance cover had a high priority for those respondents who had obtained insurance in the past, despite living on a low income. For them, it was important to be insured against damage to the house or property, in some cases for good reasons. One respondent, for example, was repeatedly flooded and, through being insured, able to replace damaged items. This often stood in contrast to those that did not have insurance cover prior to contact with the agency. These respondents chose to remain without insurance because they felt they did not need it or had a greater readiness to assume risk, which is also suggested in the literature (Kempson et al., 2000; Whyley et al., 1998).

No, there's nothing in here worth stealing [laughs]. (...) I've had letters from them [housing association] like, you know, but ... I mean if anything happens like (...) the TV broke down or whatever you can get – that telly only costs me 20 pounds.

Lucas, Waterside Housing Association

This comment highlights that this respondent, like other people in the sample, made an informed choice not to take out insurance. The cost of taking out insurance was generally perceived to outweigh the cost of replacing damaged property. Taking out insurance, therefore, was not perceived to be advantageous.

¹¹⁵ The topic was covered in 33 interviews.

In contrast, other uninsured respondents were not aware of affordable insurance schemes, and this partly explained why they thought insurance cover would be unaffordable. Of this group of respondents, some had had insurance cover in the past and felt uncomfortable without insurance. Some had taken out insurance after contact with the agency when they received information about affordable insurance schemes. Therefore, to some extent, the existence of affordable schemes as well as the provision of financial information can make an impact on insurance inclusion.

6.5.1 *Summary*

The data on insurance exclusion suggest that many respondents had insurance or made an informed choice of not taking out insurance. The latter group was aware of the existence of affordable insurance schemes and the risk of not having insurance cover, but nevertheless decided against taking out insurance. This, again, highlights the importance of choice in understanding why people do not want to access and/or use financial products and services. The choice of other people in the sample, however, was restricted through a lack of information about the availability of affordable insurance schemes and lack of confidence.

6.6 Consequences of Financial Exclusion: Links to Social Exclusion

People's circumstances, particularly low income and unemployment, were important factors in explaining financial exclusion. For example, living on benefits and not being in paid employment respondents felt that there was little need for opening and/or using a bank account, with a POCA perceived to be sufficient to manage their finances. The same accounts for the use of direct debit. In the sample, several consequences of financial exclusion were mentioned and are discussed below.

6.6.1 *Costs Associated with Financial Exclusion*

In the literature, financial exclusion is often associated with higher costs for the individual (Conaty and Bendle, 2002; Kempson and Whyley, 1999b; Speak and Graham, 2000). The findings of this research largely confirm this.

One factor that was repeatedly mentioned in the sample was the costs associated with using credit, both sub-prime and mainstream. In this context mainstream credit was generally not perceived to be more affordable than sub-prime credit, given the relatively

large sums people were able to borrow rather easily via credit cards and overdrafts. Higher costs were also associated with paying bills manually, particularly in relation to using prepayment meters.

(...) I've heard a lot of folk getting them [prepayment meters] taken out because they are a lot more expensive. And I did go to "uswitch.com" and had a wee look and see what cheaper one I could get, but it was like none of them were for a prepayment meter.

Lisa, Money Advice Centre

This comment and that of others suggest that users of prepayment meters were aware of the fact that paying utilities this way was more expensive. Thus already vulnerable consumers are increasingly disadvantaged as a consequence of financial exclusion; thereby contributing to their experience of poverty. Given the higher costs of sub-prime credit, two respondents made a direct link to poverty:

Some people are making money out of people's poverty. (...) you look at like Shopcheck, Provident (...) And they know that the people are *that* poor that when Christmas comes up, they're gonna take it. (...) These companies know that they're in poverty. If they offer them x and x-amount of money it's gonna be very difficult for them to say "no". So I don't blame people for saying "yes" ... but the interest that they charge is phenomenal.

Graham, financial education workshop, Glasgow Advice Bureau

Similarly, one respondent without a bank account who had used cheque cashers in the past, mentioned the high costs of using this service.

(...) I got a criminal injury claim when I didn't have a bank account and I went to the pawn again. And it was 5,000 pounds (...) They [pawnbroker] gave me the money there and then, but they almost charged 162 pounds to give me all that cash. But I didn't have a bank to put all the money in cause I wasn't dealing with the bank. I just kept it under my bed [laughs].

Kevin, budget service Caledonia Credit Union

In addition to the costs associated with using cheque cashing services, this comment also points to the security risk of keeping large sums of money at home. As shown earlier, attitudes to different payment methods varied, but underlying these were a fear

of losing control over a tight budget or mistrust of mainstream finance institution. Although this study largely confirms the findings of other research, it also highlights the costs associated with being more included in the financial mainstream; particularly the use of mainstream credit. This is explained in depth below.

6.6.2 *Over-indebtedness*

Several aspects of financial exclusion were linked to over-indebtedness, including the use of expensive credit and over-commitment. Change of circumstances was the second important cause of debt problems in the sample. Although not an aspect of financial exclusion, this factor is reviewed here in order to understand the experience of over-indebtedness in the sample in full.

Use of Credit: The data suggest that credit exclusion is an essential feature of over-indebtedness. Many of those who experienced over-indebtedness or problems with repaying consumer credit and other household commitments associated their problems with the inappropriateness of the type of credit they used. In fact, having been in arrears with consumer credit and/or other household commitments was, by far, the most common reason for respondents to contact or be referred to one of the participating money advice or financial education initiatives. Financial difficulties were associated with the use of both sub-prime and mainstream credit. Respondents felt that their debt problems were often caused by the costs of using credit (e.g. repayment rates, penalty charges for missed payments), the lending practices of lenders (e.g. offering more loans or credit cards when people were already in financial difficulty and unlikely to repay), but also by their own lack of knowledge and understanding of using credit. Over-commitment therefore was a common problem and subsequently could lead to people's inability to repay debt.

Use of direct debit: Utilising direct debit is another factor that contributed to over-indebtedness in the sample. As shown earlier, the imposition of bank charges which, in one case, mounted up to £500 worth of debt, could be a major contributor to financial difficulties. This is also suggested in the literature (see for example, Gloukoviezoff, 2007; Kempson and Whyley, 1999b). In turn, over-indebtedness could result in the closing down of bank accounts and could limit access to and use of financial products and services. The relationship between over-indebtedness and financial exclusion was striking in the story of one respondent. While he had experienced a relatively high level

of financial inclusion when he first contacted the agency, at the time of the follow-up interview, he found that while he had been able to access mainstream credit before, that access was subsequently restricted as a consequence of debt problems.

I didn't get it [loan] through the bank. I got it through a company like off television. I tried to go down the road of like normal lenders first of all you know mainstream, banks et cetera, but it was difficult. None of them would given me a loan (...) you then become what they call "sub-prime" you know.

Max, Money Advice Centre

This example illustrates the dynamics of financial exclusion, which did not only affect those on low incomes, but also more affluent individuals. This is an important point which is, to some extent, acknowledged in the literature (see for example, Gloukoviezoff, 2007; Kempson and Whyley, 1999a), but requires more policy attention.

Change of circumstances: One factor which is often a cause of financial problems, but which is not related to financial exclusion, is change of circumstances. Although this point will not be discussed here in detail as the focus is on exploring the links between financial exclusion and over-indebtedness, it is briefly illustrated. There were about 15 (out of 27 respondents who were behind with paying consumer credit) respondents who felt that debt had become (more) unmanageable when their circumstances changed. Usually, job loss, a reduction of working hours, relationship break-up or bereavement meant that respondents were no longer able to meet credit commitments. In this context, it was especially a reduced income, but also an increase in expenditure, for example in case of a relationship break-up¹¹⁶ that triggered debt problems. In addition, some respondents had not been managing money themselves before their circumstances changed. Dealing with the emotional stress¹¹⁷ of a relationship break-up or bereavement, these respondents further faced the difficulty of managing money themselves for the first time. In one case, one respondent was particularly vulnerable

¹¹⁶ For example, it was common that respondents had joint debts with their partner, which respondents often had to pay without their partner being willing or able to contribute.

¹¹⁷ This could be devastating as the experience of some respondents showed, leaving little room for anything else, let alone managing finances.

due to his illiteracy, which meant that he greatly depended on the help of his family, the agency and the bank in order to manage his financial affairs. One respondent, a single parent of one, highlighted the complex processes that are at work.

(...) first and foremost you have to learn to start to budget when you've never done it before. She's [wife] always done it. (...) the second thing is that you're left with all sort of debts that was debts from your marriage which was okay. It was serviceable because you were out working but then you find yourself you can't go out working because you've got your parental duties.

Graham, financial education workshop, Glasgow Advice Bureau

In turn, his situation created additional barriers to work (i.e. being a single parent, debt worries), and hence to improving his situation in the longer term.

Overall, there was a strong correlation between being in arrears with consumer credit and household bills; whereas consumer debt often led to problems with paying other household commitments. In this context, some respondents went to great lengths in order to make sure that debts were paid, even cutting back on essentials like food and fuel.

The money I was paying them [creditors] ken – the money I was paying on power card I was giving to them. (...) I would just sit a day sometimes without it [electricity].

Mark, Financial Inclusion Project

Alongside restricting respondents' expenditure, the experience of debt problems had further consequences for respondents' health and well-being, discussed below, and affected wider processes of social exclusion, such as respondents' (perceived) ability to return to the labour market.

6.6.3 *Health and Well-being*

Poor health and well-being¹¹⁸ were strongly associated with debt problems to which financial exclusion was a central contributory factor. On the one hand, health issues such as depression contributed to financial difficulties, as Janice, one of five respondents, describes:

I suffer from SAD. That's depression (...). And that's another reason why I got so bad into debts as well because you just, you don't care about anything else, you know. You just lock yourself up (...).

Janice, Financial Inclusion Project

On the other hand, the experience of debt problems and money worries significantly impacted on respondents' health and well-being to the extent that some had considered or attempted committing suicide prior to coming into contact with the agency. The devastating effect of debt problems on those who experienced over-indebtedness is exemplified by the following quotes.

(...) it [debt problem] affects you in every way. (...) I was thinking about debt all the time, you know. "How am I gonna pay this? I'm worried about that". Your life's all - you know it's not easy.

Charles, budget service Caledonia Credit Union

(...) it's [debt] just a vicious circle. It's like a whirlpool. No way out.

Mary, budget service Caledonia Credit Union

Threatening letters, telephone calls and even personal visits by creditors added to respondents' worries about debt and contributed to their anxiety. Furthermore, debt problems and living on a low income had a knock-on effect on respondents' social life and thus, their quality of life since they lacked the funds to spend on social activities or were worried because of debt problems. For some, money worries were accompanied by a sense of losing control, not only over their finances, but their life in general. This also

¹¹⁸ This concentrates on respondents' psychological health and well-being (e.g. feelings of happiness, autonomy, competence and relatedness) (Newton, 2007) rather than their physical condition.

affected people's confidence, whereas having managed to put some money aside gave respondents a sense of security.

Financial exclusion had a more direct impact on respondents' health and well-being through feelings of financial exclusion discussed below.

Feelings of Financial Exclusion: The experience of financial exclusion in the sample cannot only be captured in terms of numbers, but also in relation to the feelings that accompany experiences of exclusion. Many respondents did not perceive financial exclusion as disadvantageous because they were comfortable with handling finances, for example, without using a bank account or direct debit. In this sense, financial exclusion was often not perceived as a phenomenon prior to contacting the agency, but was simply an integral part of managing on low income. In addition, managing largely outside the financial system was often firmly embedded within their social surroundings, with little awareness of alternatives and formal knowledge of the financial system, as one interviewee explains:

“I never knew you could get...I thought you just had to go in [bank] and ask for a bank account.” So when she [bank staff] asked me what kind I didn't have a clue what to ask for and I went “an account, just a bank account”. So that's all I've got a bog-standard bank account (...).

Alison, financial education workshop, Glasgow Advice Bureau

Without this formal knowledge, it was difficult for people to realise their rights and also have the confidence to confront mainstream financial institutions.

Although often not perceived as a phenomenon, some respondents felt stigmatised by their exclusion from the financial system. This was most striking in the story of Cornelia, who had her current account downgraded to a basic bank account within three weeks after having to give up work due to health problems.

(...) I had to bring in my cheque book and my cheque card and I just felt I was being stripped. I was been stripped of everything, [interviewer]. My career, my respect, my dignity, my ability to finance my own life (...) Giving up the cheque book and the cheque card was, wasn't the issue. The issue was the status of having a current account. (...) At the age of 38 to go from having a current account for the best part of 25 years to having what a child would have was quite...

Cornelia, Waterside Housing Association

Although extreme, this example shows the psychological effects of financial exclusion. It is echoed in the feelings of other respondents who were refused financial services or who could only access these with difficulty. The different treatment of people with diverse personal circumstances by banks is exemplified in the following statement.

I don't really think very much of the banks because I kind of feel like – I mean I've been a student as well and I kinda just felt that like when I was a student they give you an overdraft really easily and they'll give you like a lot of help, whereas when you come to like – obviously when I was working I was fine as well cos they'll give you so much leeway, but when you go on to benefits you get no leeway, which is really hard because then of course say you did go five pound over one month they put about a 25 pound charge on it, which I think is absolutely ridiculous.

Lucy, Money Advice Centre

This comment echoes the experience of others who suggest that banks often lacked responsiveness to the circumstances of socially disadvantaged people, and as such were a contributor to financial exclusion and social exclusion more widely.

Mistrust of mainstream financial institutions was widespread in the sample and contributed to financial exclusion as people were for example reluctant to approach banks or use mainstream financial products. Overall, this feeling was as much a part of the experience of financial exclusion as the direct refusal of mainstream financial services or the difficulty to use these. Although the psychological effect of being financial excluded is to some extent acknowledged in the literature when stating that the government's banking strategy, for example, stigmatises people who do not have an 'ordinary' account (Midgley, 2005), what it means to the individual concerned is not explored.

6.6.4 *Employability*

A link between financial exclusion and employability is often made in the literature (see for example, Clark and Aynsley, 2008; Speak and Graham, 2000), particularly with respect to not having a bank account for the receipt of wages, which is now often required by employers. In the data no evidence of such a link could be found. Partly this may be explained by the low proportion of people who moved into work during the course of the research and the large number of people who had a bank account. Generally, respondents did not perceive having a bank account as a significant advantage in terms of employability; though it was recognised by those with dormant accounts that they would need to keep it open should they find employment. In this respect, lack of employment or moving into work was seen as the crucial factor in determining banking ex-/inclusion, rather than vice versa.

In the sample, there was also evidence that respondents could find work without having a bank account or obtaining one during employment, as this respondent explains:

I can't remember them [employer] saying that you have to open a bank account, but... I think it sort of would be easier cos it saves you having to go to get your money from the finance department and get it there and take it out from there.

Peter, Financial Inclusion Project

This suggests that although the importance of having a bank account when moving into employment was acknowledged in the sample, it was not perceived and did not seem to be a pre-requirement for the transition into work. In fact, other barriers to work were reported by respondents, which were likely to play a greater role in their success of taking up employment. Issues around childcare, health problems, job availability and transport (particularly in rural areas), level of skills and education, low income and confidence in particular were mentioned by those outside work. Of course, some of these were also associated with and reinforced financial exclusion. For example, lack of confidence to handle financial services and finances more generally could also contribute to a lack of confidence of handling other aspects in their life, such as returning to the labour market or full-time education. In one case, lack of budgeting skills, problems with using mainstream banking services and debt problems meant that one respondent dropped out of college, with likely further consequences for his employment prospects.

6.7 Conclusion

The aim of chapter was to explore the key processes that lead to financial exclusion and thus to provide a basis for the discussion in Chapter 7.

Given the experience of disadvantage in the sample, it was not surprising that many people had experienced financial exclusion to some extent prior to contact with the agency. The refusal of mainstream banking services and credit respectively was rare. More often respondents reported difficulty with opening bank accounts or obtaining mainstream credit. In this context, some users of sub-prime credit felt that there was little point in applying for mainstream credit. These respondents, rather than suffering from direct exclusion, experienced indirect exclusion from the financial mainstream. While the choice of these respondents was restricted in the sense that they anticipated difficulties with obtaining mainstream credit, others made well-informed, rational choices not to use a particular type of financial service. Taste played an important role particularly in relation to the use of home contents insurance and automated banking. However, this was often constrained – particularly in the case of automated banking – through people's lack of financial knowledge and the perceived inappropriateness of mainstream banking services. As a result, many people self-excluded.

While the government seems to have been successful in promoting basic banking services, with all people in the sample having at least a POCA or a basic banking account, a bigger issue was that of dormant accounts and the limited use of automated banking. One problem in relation to this was the imposition of (unaffordable) bank charges for failed direct debits. As a result, many respondents were not able to take advantage of the benefits mainstream banking could offer, which is described in the literature as a case of 'exclusion within inclusion' (Clark et al., 2005). The large proportion of underbanked people in the sample confirms suggestions in the literature that simply having a bank account is not an indicator of financial inclusion. Moreover, the data suggest that in some cases making comprehensive use of accounts even exacerbated the financial difficulties people encountered. On the one hand, this points to the (remaining) inappropriateness of this facility for people living on low incomes. On the other hand, however, it suggests that financial inclusion policies can only promote meaningful inclusion when ensuring that the underlying causes of exclusion,

particularly low income, are tackled. For example, even in the case of reduced charges for failed direct debits, this may have little impact on the use of automated banking since this method of paying bills was disliked by many of those on low incomes. Therefore, the wider context of exclusion should be taken into account when designing and promoting financial inclusion initiatives.

Despite the general low socio-economic status of the sample, many respondents were able to obtain some kind of mainstream credit, including credit cards and bank overdrafts. The most striking issue was the use of inappropriate mainstream credit and irresponsible lending on the part of mainstream financial institutions. In fact, some respondents perceived that there was little difference between the lending practices of sub-prime and mainstream lenders. This suggests that engagement with mainstream financial services does not embrace the concept of financial inclusion closely enough since people need to be able to access and use *appropriate* financial services. Although this is generally recognised in the context of promoting mainstream banking services, having access to inappropriate mainstream credit is currently not perceived as a case of financial exclusion. In addition, how people *use* available credit sources is a point which needs to be considered by policy makers and in the literature in the context of financial exclusion, since over-commitment can be an important cause of over-indebtedness. For example, it will be shown later that even in the case of making more affordable credit options available to low-income consumers, an inability to use credit can similarly lead to financial difficulties than more expensive borrowing. These findings are some of the main contributions of this research to a better understanding of financial exclusion.

This study, by and large, confirms the key processes that lead to financial exclusion which are generally identified in the literature, including institutional barriers (e.g. ID requirements for opening bank accounts) and individual factors (e.g. mistrust of banks and, lack of financial knowledge, skills and understanding). Overall, the research highlights the importance of social disadvantage in influencing financial exclusion. A direct link between low income and financial exclusion was, for example, observed in relation to savings exclusion. Although it is recognised widely in the literature that financial products are often not used because they do not fulfil the specific needs of those who live on low incomes and are, as a consequence, financially excluded, financial inclusion policies generally focus on product design and delivery as well as promoting financial education and advice. Given that living on a low income can

directly impact on financial exclusion, it is too simplistic to assume that these policy strategies alone will be successful. Another factor that has hitherto received little attention in the literature, but was identified as important, is health. The inclusion of respondents with mental health and addiction issues allowed the researcher to make links between health and aspects of financial exclusion. For example, suffering of depression or emotional stress meant that people found it difficult to manage financial services and finances more generally in an effective way.

The longitudinal approach of this research enabled the researcher to explore the persistence of these factors. The follow-up interviews suggest that some of these barriers were more persistent than others. Most importantly, mistrust of banks and the perceived lack of need for changing the way they use banking services were some of the factors that were more persistent than others. Therefore, psychological barriers such as mistrust of banks (which was partly based on first-hand experience) and those associated with people's personal circumstances, for example unemployment, were difficult to overcome by the provision of financial education, advice and services alone. This confirms the importance of taking into account the wider context of financial exclusion in initiatives. Moreover, alongside the consequences of financial exclusion identified in the literature, such as the costs associated with exclusion and its link to over-indebtedness, this study also points to the psychological impact of financial exclusion. For example, experiences of financial exclusion left some people in the sample feel stigmatised. Therefore, promoting financial inclusion means more to some people than just having a financial product: there can be a meaning attached to it as well. This has hitherto not received great attention in other studies. In contrast to claims often made in the literature, no direct links were found in relation to employability.

On basis of these findings, the next chapter discusses in detail the changes that were apparent or perceived after contact with the agency.

Chapter 7 - Processes of Financial Inclusion: the Impact of the Agencies

This is the second of the two chapters that form the data analysis. Chapter 7 is central to the thesis in proposing answers to the key research questions: to understand the key processes that lead to financial inclusion and to explore the wider impacts of improved financial inclusion on people's lives, specifically more general links to processes of social inclusion. While the previous chapter – Chapter 6 – concentrated on people's experience of financial exclusion before coming into contact with the respective financial inclusion agencies, this chapter looks more closely at the perceived and apparent impacts of people using the agencies and how they feel improved financial inclusion (if any) has impacted on their lives. Like the previous chapter, this one is based on the interviews conducted with service users. It also reviews evidence of the follow-up interviews that were conducted with 24 of the original participants to determine any longer term changes experienced. The chapter firstly discusses how people came in contact with the agencies. Secondly, the chapter reviews in detail the factors – relating to the services offered by the participating agencies but also other evidence gathered during the interviews with service users - that helped respondents to overcome financial exclusion.¹¹⁹ Ultimately, the chapter reviews any evidence of links between improved financial inclusion and social inclusion more generally, both in the short and longer term.

7.1 Coming into Contact with the Agency

Having been in arrears with consumer credit and/or other household commitments was, by far, the most common reason for respondents to contact or being referred to one of the participating agencies¹²⁰. Overall, 29 respondents stated this reason for coming into contact with the agency (Table 7.1).

¹¹⁹ This includes any changes that were experienced in terms of gaining access to and starting to use financial products and services of the financial mainstream as well as third-sector financial services providers.

¹²⁰ This includes people who had been in arrears with other household commitments, such as paying rent or council tax, rather than those with consumer credit arrears alone, which were discussed in the previous chapter. In addition,

Table 7.1 Reason for Contacting the Agency

Type of reason*	Number of respondents
Arrears with consumer credit and other household commitments	29
Benefits advice/income maximisation	6
Budgeting advice ¹²¹ , advice about financial products and services	6
Training-to-work programme	6
Accessing financial product of agency	6

* Some people came in contact for more than one reason and at several occasions

Other reasons why respondents came in contact were to seek advice about benefits, budgeting, accessing and using financial products (12 out of 41 reported such a reason) as well as for the financial services offered by the agency directly, particularly Waterside Housing Association and Caledonia Credit Union (six out of 41 stated this reason). This shows that, in fact, many respondents came in contact for reasons other than financial exclusion issues, which came up during the initial discussions about, for example, money problems. One explanation for this was that many respondents were not aware that they were affected by financial exclusion as they were not conscious of alternative financial products and services that might be available to them. In addition, as pointed out in the previous chapter, engagement with the financial system was not pivotal for many people in the sample, whereas money problems in the form of over-indebtedness and difficulty in making ends meet were vitally important to most of them. The large number of respondents that approached the seven financial inclusion agencies with issues of over-indebtedness suggests that debt problems are often an important issue for those who experience financial exclusion and hence need to be treated in conjunction.¹²²

Contact with the agencies was not always made on the initiative of the respondents. Some were referred by other organisations such as health agencies, the Jobcentre and Citizens Advice. In addition, the financial education workshops of the Glasgow Advice

more had debt problems, but had not discussed these with the agency, either because they felt that debt was not a problem for them, were not ready (yet) to discuss debt or thought the agency would not be able to help.

¹²¹ Wanted to know more about budgeting and managing money in general.

¹²² It was not necessarily the adviser responsible for promoting financial inclusion that dealt with clients' debt problems in depth, often different units or specialised advisers within an agency worked together.

Bureau were offered as part of the training-to-work programme of other agencies. Therefore, participation in these workshops was not sought out by these respondents¹²³, with some consequences for the impact of the workshops on participants, as will be shown later.

Dealing with creditors: An important reason that people came in contact with the financial inclusion agencies was debt problems. Some had tried to deal with creditors themselves, but came in contact with the agency when negotiations with creditors to arrange alternative payments failed. These respondents felt that creditors ignored their circumstances and were not cooperative in reducing debt payments or allowing payment ‘holidays’. This was voiced in relation to banks as well as doorstep lenders.

And you phone up the bank and you say “could I get this? Could I leave it this month?” you know “I’m a bit short”. “No, but what we can dae” and then the usual “we’ll clear this loan up and gie you another one”.

Charles, budget service Caledonia Credit Union

And they [doorstep lenders] stand there and they intimidate you “you have to do this”. And I’m like “Well, I know I’ve got to pay it” (...) I says “you got to understand I got a little daughter and I’m on my own, I need gas and electric” – they want your money and they, as [adviser] says they don’t care, you know if you’ve got other things to pay.

Janice, Financial Inclusion Project

Therefore, having failed to come to an agreement with creditors, respondents felt that the agency was their only way of finding an affordable debt arrangement. This was to some extent confirmed by the experience of respondents.

(...) she [adviser] contacted both financial institutions, you see. What one of them wouldn’t do for me, they did for her. So this place has power and clout, right.

Marylyn, West Edinburgh Advice Cooperative

¹²³ This applied to six (out of the seven) who participated in the financial education workshops.

This comment suggests that some respondents did not feel that they received equal treatment from financial institutions when it was compared with that given to the more powerful and articulate money advice agencies. As a consequence, respondents felt powerless and lacked the confidence that they would be able to sort out debt problems without help. This explains in part why other people in the sample had made no attempt to deal with creditors themselves. In contrast, one respondent was able to sort out debt repayments with her creditors after she got advice from the agency. Agencies, therefore, were not always directly involved in the process of negotiating debt with creditors, but could also empower respondents to deal with issues of debt themselves.

Becoming aware of the agency: Respondents who sought out contact with the agency of their own accord said sometimes that it was difficult to find out about the agency. This applied particularly to newly-established projects, but also to some longer established agencies such as the Money Advice Centre.

But there's nothing with a big label on it saying "help is here" (...) I had to have a read through other leaflets, you know till I see actually this and pick it up. I think it's not enough. Not a lot of people know about this [agency], you know (...).

Janice, Financial Inclusion Project

This and other comments suggest that there is a demand for these services, but that sometimes little awareness existed that these agencies were available for help. Other organisations were important in this respect for directing respondents to the respective agency. Another important source of information about existing channels for help was through social networks and word-of-mouth. This suggests that it would take some time for new projects to be established in the community.

7.2 Banking Inclusion

The agencies had an impact on several aspects of respondents' experience of banking exclusion. These ranged from opening bank accounts to starting to use direct debits. In contrast, some respondents were advised to close down accounts. These issues are discussed below.

7.2.1 *Opening Bank Accounts*

Three respondents out of the six without a bank account opened one through the help of the Financial Inclusion Project and Glasgow Advice Bureau. Their support ranged from liaising directly with mainstream financial institutions to help respondents open an account (Financial Inclusion Project) to offering them advice and information about applying for an account on their own (Glasgow Advice Bureau). In the case of one respondent who lacked reading and writing skills and who had never needed to manage money on his own before, the multi-faceted, personal support of the Financial Inclusion Project was particularly vital. The payment of travel expenses for the training-to-work programme, where some of the financial education workshops of the Glasgow Advice Bureau were held, encouraged one unbanked respondent to open an account; thereby suggesting that financial incentives can be an important factor in bringing financial inclusion forward; at least in terms of access. The data show that this did not necessarily lead to the use of bank accounts; neither in basic terms (i.e. people continued to withdraw all cash at once and handling a cash-budget), nor in terms of using advanced facilities such as direct debit.

7.2.2 *Starting to Use Direct Debit*

For six respondents who had a bank account and one previously unbanked respondent, setting up direct debit presented a new alternative, where they had had no or little information about using this facility before contact with the agency. This suggests that not all people in the sample categorically objected to using direct debit, but some lacked knowledge about using the facility. Consequently, for this group, information and advice about direct debit were decisive in influencing positively their decision about using the facility, as this respondent, a single parent of one, explains:

It was [adviser] that told me about things when we were doing (...) the workshop that I could do a direct debit. So that's why I went, that's why I was doing the workshop, that's why I asked to get it done before then, no [laughs].

Marline, financial education workshop, Glasgow Advice Bureau

Other people in this group also made a direct link between increased knowledge and improved banking inclusion. In fact, five of those who started using the facility for the first time participated in one of the financial education programmes of the Glasgow

Advice Bureau, while the other financial education initiatives – the Financial Inclusion Project and Community Help Centre – were also involved in this process. Related to this was that all of them, except one respondent, felt that the agency had helped them to budget money more effectively, indicating the likely success of a multidimensional approach.

Well, I can manage my money better. (...) Beforehand I didn't always know what I was paying for and what I wasn't paying for, but now is, now I can read my bank statement and know what's coming off and what's not coming off (...).

Marline, financial education workshop, Glasgow Advice Bureau

The projects delivered financial education either on a one-to-one basis (Financial Inclusion Project and Community Help Centre) or were group-based, as in the case of the Glasgow Advice Bureau. While all were successful in delivering financial education and were centred on the needs and circumstances of participants/clients, a one-to-one approach was more responsive to the needs of very vulnerable individuals. This gave room for respondents to speak freely about their experience without the presence of others and to build up a personal relationship with the adviser. In contrast, the advantages of group-based financial education were found by respondents in the building up of confidence and the sharing of (similar) experiences. That the presence of other participants could be inspiring was particularly shown in the context of the establishment of a savings group by participants, which will be discussed later.

Influence of social networks: Social networks could impede financial inclusion processes, as for example shown in the context of sub-prime credit use. That they could also enforce processes of inclusion was identified in this research.

(...) she [daughter] wanted to upgrade her account to a debit account and her bank have told her “no, I am not doing this”. (...) So I says to her “if they are not willing to upgrade your account (...) you open another account elsewhere and tell them exactly what sort of account you want to open and they open that because [agency] told us.

Alison, financial education workshop, Glasgow Advice Bureau

This also applied to other aspects of financial inclusion experienced by respondents, such as savings inclusion. Overall, this illustrates that family networks were important

sources of knowledge about financial services, which, in turn, could encourage other family members to change their attitude and behaviour. Although not explored in detail, it is likely that the experience of respondents in relation to credit use, which will be discussed later, can also contribute to challenging the tradition of using sub-prime credit amongst family and friends. Some evidence for this is, for example, shown in the relation to the use of credit unions, with family members telling each other about the benefits of using this type of organisation. What also comes across in the comment above is the confidence which knowledge about financial products gave this respondent and which she had lacked prior to attending the financial education workshop. This impact of financial education on feelings of empowerment is discussed later.

Change of circumstances: Personal circumstances remained an important factor in explaining change in use of bank accounts despite increased financial literacy of respondents, as this comment illustrates:

I started to use [direct debit] (.) once I started working and cos with the bills before the gas would take off just the bulk amount. They don't take off as much every week. So I couldn't afford that coming off my benefit money.

Helen, financial inclusion programme, Glasgow Advice Bureau

In this context, increased financial resources made it easier for respondents to engage more meaningfully with available banking services. This was also striking in the story of another respondent who began to use her bank account after having gained employment about one year after the first interview (though she did not set up any direct debits); hence confirming the longer term impact of personal change on banking inclusion.

The importance of income level in influencing banking inclusion is also reflected in the accounts of those who continued to make only limited use of the facility. This group of respondents, as discussed previously, was generally wary of the imposition of bank charges for failed direct debits and the lack of control over finances, hence largely preferred a cash budget. Nevertheless, there were examples of economically inactive respondents making comprehensive use of direct debit. This challenges findings which suggest that only those with sufficient funds use this facility (Irvine et al., 2007).

7.2.3 Use of Alternative Banking Services

An important change in terms of banking was the take-up of alternative forms of banking services. Overall, four respondents had started online and telephone banking. All of those who started this facility, except for one, participated in the financial inclusion programme of the Glasgow Advice Bureau. The data show that course participants were an important source of information and encouraged respondents to start the facility.

I know it [banking] would be easier cos I know other people have got it as well and they says “you should get that. It’s a lot better”. And I did.

Julia, financial inclusion programme, Glasgow Advice Bureau

This example suggests the benefits of a group-based financial education approach as this encourages the interaction between participants. Furthermore, it is an indication that social networks can influence people’s behaviour in various ways and are an important medium for the transmission of information (also with respect to other family members and friends). Nevertheless, the potential of new ways of banking was restricted in the sample. Although not examined in detail, the data denote that access to and confidence in using computers and the internet were low in many cases, indicating a link between financial exclusion and unequal access to and engagement with information and communications technologies (‘digital divide’) (Sinclair et al., 2007).

For others, however, financial education and budgeting advice had little effect since they felt comfortable with the way they managed their money, something reflected, for example, in the consistent use of prepayment meters. Consequently it was not surprising that this group of respondents retained their way of managing money even after contacting the agency and in the longer term. In fact, of those who were not utilising their bank account before, none changed their banking habits following contact with the agency. In addition, although some had considered the possibility of changing the use of banking services in the future, this had not happened in the majority of cases at the time

of the follow-up interview. In fact, three respondents¹²⁴ had remained without a bank account. Overall, this suggests that the impact of increasing access to financial products, and the provision of financial education and advice when individuals themselves are not convinced that these products are beneficial to their needs and circumstances was only moderate. Individuals' choices, therefore, need to be taken into account when formulating financial inclusion policies.

7.2.4 Summary

To sum up, respondents' experience of banking exclusion had changed in several ways. Some people in the sample without a bank account were able to open one with the help of financial education agencies, while others started to use direct debit and alternative banking services such as online banking. However, a large number of respondents made no changes to the way they used banking services, also in the longer term. A major reason for this was the perceived lack of relevance, but also appropriateness, of mainstream banking services for their current circumstances (i.e. living on benefits, low income, unemployment). There was evidence of change in personal circumstances positively influencing banking inclusion, although this was only observed in the case of two respondents.¹²⁵

7.3 Credit Inclusion

Chapter 6 showed that the use of sub-prime credit was widespread in the sample, but so was the use of mainstream credit sources, which were accessible even for some of those on benefits. Direct refusal of mainstream credit was a rare experience in the sample; more often people had not approached banks because they thought they would be refused because of their personal circumstances or debt history. Access to inappropriate credit and over-commitment were key factors in explaining debt problems in the sample. Another important cause of over-indebtedness was change of circumstances (e.g. bereavement, job loss and illness).

¹²⁴ One had closed his account when he came in contact with the agency.

¹²⁵ In most cases, respondents' circumstances had not changed after using the agency and one year after the first interview, which made it difficult to explore this link further.

In comparison to the area of banking, the agencies had a more significant impact on credit exclusion and over-indebtedness, particularly because agencies had a powerful stance in terms of dealing with respondents' creditors, promoted financial education and (affordable) alternatives to more expensive types of credit previously used in the sample. Thirteen of respondents who had experienced debt problems previously said that they had stopped using credit altogether since they had been in contact with the agency; whereas others stated that they started to use alternative (more affordable) credit options, or used the same type of credit more responsibly. Similarly, 12 (out of 24) people in the sub-sample had not used credit again since the first interview, which indicates a longer-term impact of financial inclusion initiatives on credit use. These changes are discussed in detail below.

7.3.1 Access to (Affordable) Alternatives

All agencies made an attempt to encourage respondents to approach alternative lower-cost credit options than the sources they had used previously. In this context, credit union membership was especially encouraged. This was discussed routinely by financial education services and, to a lesser extent, covered in debt advice sessions. Different methods for promoting credit unions were identified, ranging from providing leaflets to establishing direct contact with the financial organisation by inviting credit unions to the agency or accompanying clients to a credit union.¹²⁶ Despite running their own savings and loans scheme, which was promoted amongst tenants, Waterside Housing Association also provided information about credit unions. Other sources of information about credit unions in the sample included the media, the presence of a credit union in the neighbourhood and word-of-mouth.

Nine respondents became credit union members after contact with the agency, primarily as a result of agency encouragement. It was particularly the challenge of misconceptions

¹²⁶ Higher levels of support were specifically observed for the Glasgow Advice Bureau and the Financial Inclusion Project.

about credit unions that motivated interviewees to join a credit union after contact with the agency.

I remember years ago when somebody said “join the credit union”. I was like “no. I’m no giving my money to somebody I don’t know” (...) I never knew anything about it. (...) It wasn’t until [adviser] had talked about the credit union blah, blah, blah. And then I was like that, “Right, I’m joining.”

Emma, financial inclusion programme, Glasgow Advice Bureau

Three respondents (out of nine) opened a credit union account as part of using the budget service of Caledonia Credit Union in order to repay debt through this account. However, only one used the account for saving some money occasionally, hence suggesting that access does not entail meaningful use of financial services. That two of the three respondents did not use the loan facility of the credit union could be ascribed to taste, however, these respondents were not well-informed about the other facilities offered by Caledonia Credit Union, hence signifying that more information needs to be given to people who join the budget service in order to enable them to benefit from the full range of services that are available from the organisation.

In contrast, others had received information about credit unions from the agency¹²⁷, but nevertheless decided not to join one. Changes to credit use did not always take place immediately after coming into contact with the agency. Two (out of four) of those respondents who had joined a credit union at the time of the follow-up interview felt that the information given by the agencies was not sufficient. They did not become a member until receiving further information about this type of organisation: a further indication that interviewees made careful decisions with regard to using financial services. Financial literacy, in this respect, was an important aspect of helping people to make informed choices.

The role of social landlords: Social landlords now play a significant role in promoting financial inclusion and facilitating access to affordable financial products and services

¹²⁷ About 24 respondents could remember having received some information about credit unions.

(Communities Scotland, 2004; Housing Corporation, 2006). One way in which social landlords become involved in the promotion of financial inclusion is through savings and loans schemes.¹²⁸ One agency in the sample – Waterside Housing Association – offered such a scheme to their tenants. Despite significant attempts to contact users of the scheme, the number of people interviewed from this agency was small, with only four people interviewed. Of these, only two respondents were active users. One had given up on joining the scheme after having encountered difficulty with opening an account with the building society which operated the scheme. Another respondent, who had already opened a savings account with the building society, made no use of the scheme because of the difficulty in physically accessing a building society branch where he could deposit money into his account. Although evidence could only be collected from a limited number of respondents, the data nevertheless indicate that access to an apparently appropriate financial product does not necessarily entail meaningful use of it since people, as the example of one respondent shows, may find it difficult to deposit money. In addition, the agency interview with Waterside Housing Association pointed to the overall moderate impact of the initiative in terms of reaching those who might benefit from such a scheme, which is also suggested in the literature (Alexander, 2007; Housing Corporation, 2006).

This section described how people in the sample came to use credit sources different from the ones they had used prior to contact with the agency. One particular aspect of financial exclusion is over-commitment, which, as pointed out before, could lead to over-indebtedness. In the following section, therefore, *how* people changed the use of the sources of credit that were available to them is discussed.

7.3.2 Credit Use

It was particularly increased awareness of the costs of credit that influenced change in respondents' borrowing behaviour. Both money advice and financial education services facilitated this process. Although personal finances were more extensively discussed in

¹²⁸ In this case an initial sum is invested by a housing corporation in a mainstream financial institution. This deposit acts as a guarantee for any loans granted and enables the bank or building society to offer loans and savings accounts to tenants of the housing organisation at preferential rates.

the financial education agencies, some basic educational elements were nevertheless present in the money advice process. For example, producing a list of all sources of income and expenditures (e.g. bills, debts) was not only a basis for negotiating debt repayments with creditors, it also gave respondents a better sense of their financial situation. As a result, several respondents reported that this had improved their understanding of their finances. Furthermore, listing all debts made respondents realise - some for the first time - the extent of their financial difficulty.¹²⁹ In this context, it was important that debt clients understood the amount of interest added to debt and the differences in costs when using different credit options. Gaining knowledge of APR was central to understanding the costs of using different types of credit, particularly the costliness of using sub-prime lenders.

[So how have you become aware [of APR]? How has that changed?]

Just speaking to [adviser] and that, you know. And he would go like that “look at that APR” and I’m going “what’s APR?” [laughs]. Never looked at it in my life. (...) That’s what I found, you know. Be more aware of APRs and stay away from the Provvy.

Michael, Budget service Caledonia Credit Union

(...) when we are doing the wee [financial education] classes and that as well, I’ve learnt a lot about like when you get catalogues and things and how much interest you’re paying on things. (...) I’d probably still be using my catalogues just noo had I not had the APR shown out to me. You know what I mean? It was like “oh my god. Am I paying that much back?”

Emma, financial inclusion programme, Glasgow Advice Bureau

Moreover, respondents’ own experience of over-indebtedness, which they did not want to repeat, meant that they wanted to change their use of credit.

I wouldnae go and get a loan because I would never want to be in that situation again. I was really – I realise noo (...) how unhappy I was, ken. Worrying about, ken.

Lisa, Money Advice Centre

¹²⁹ It was not uncommon that people hid debt letters and would not want to face the extent of their problem.

This was consistent with the views of at least 13 other respondents. As a consequence of these factors, many people in the sample thought more carefully about what type of credit they wanted to use and how they should use credit. This was often accompanied by a greater awareness of how they managed money in general. For example, often respondents reduced spending on non-essentials such as magazines/newspapers, alcohol and cigarettes or re-considered consumer behaviour at times such as Christmas, as this respondent, a single parent of one, explains:

(...) I did realise as well you can't spend a lot of money on Christmas presents because at the end of the day it's only one day in a year and, you know. It's nice to have presents, but you can't always do this.

Janice, Financial Inclusion Project

In this context a lifestyle change was reported by some (e.g. reduced smoking, greater health awareness). Overall, this signifies that financial education, as one aspect which brings financial inclusion forward, had implications for the lifestyle and quality of life of respondents. In terms of financial inclusion, one aspect of changed credit use in the sample was that available credit sources were used more sensibly. This and the continuing use of credit are discussed below.

Borrowing again: Nine respondents had borrowed again at the time of the first interview (three of them had had first contact with the agency more than 12 months before); whereas 12 had used credit again one year later (two out of the nine who had borrowed previously). On the one hand, this result suggests the continuing importance of using credit when living on a low income, and to some extent confirms the finding of Williams and Sansom (2007) on the limited long-term impact of money advice. On the other hand, however, all of those who had used credit again at the first interview and most of those respondents who had borrowed one year later refrained from using the sources of credit that had previously contributed to their financial difficulties, or used the same sources more responsibly ¹³⁰. Instead they used alternative, more affordable

¹³⁰ This was true for seven respondents (out of 12) who had borrowed again.

sources of credit, including credit unions, family networks, the Social Fund and, in one case, Waterside Housing Association's loan facility.

There's been Greenwoods [doorstep lender] coming back to my door and go "you can take out a loan". I say "thank you. I don't need to". (...) I've been there. I've seen what happens.

Janice, Financial Inclusion Project

(...) now I don't have anything sitting on the Visa bill. It's back to being an emergency use if I need it for an emergency then I know it's there.

Fiona, Community Help Centre

This challenges research which identified that credit union members often continue to use expensive types of credit (see for example, Byrne et al., 2005; Collard and Smith, 2006). Instead, this research suggests that credit union membership, for those who were active members, often offered a real alternative to more expensive sources of credit. This is one of the factors that explains why the agencies had been more successful in respect of credit than the previous discussed area of banking: credit unions offered a service that is significantly more affordable than other types of credit previously used in the sample, including mainstream and sub-prime credit. Offering people new alternatives, therefore, can challenge routines and habits. In contrast, banking inclusion was not perceived to be beneficial to money management by many.

However, one respondent continued to use sub-prime credit because he had exhausted the possibilities for borrowing from his credit union; hence suggesting that access to an affordable source of credit is not enough if people, like this respondent, lack the ability to make appropriate use of this source. In the case of this respondents it was both a lack of financial capability and his personal circumstances (low income, chaotic lifestyle, health issues) which contributed to his difficulties. Thus a holistic approach to promoting financial inclusion, which takes into account the wider context of exclusion, is important. This was also evident in the case of the other respondents who had used expensive credit again.

Although saving activities appeared, to some extent, to have reduced the need for people for immediate cash and thus, to use expensive sources of credit such as doorstep

loans, people still often needed to borrow. Therefore, having ready access to *appropriate* credit (e.g. being able to access credit for an emergency) *and* being able to make effective use of these sources are important. One example which underlines this is the story of Emma. She got into financial difficulties before contacting the agency with using credit cards and various sub-prime credit commitments. However, since gaining a better understanding of the costs of borrowing and using credit she feels now comfortable with using a bank account overdraft and can appreciate its benefits for her money management.

Noo, me and my dad opened up a joint-account. Because my dad's got an overdraft so I get the overdraft as well noo. So that when I'm short of money I can pay something and it comes off the overdraft.

Emma, financial inclusion programme, Glasgow Advice Bureau

At the same time this example shows the great source of help family and support networks constituted. This was evident in the stories of others. Borrowing from relatives and friends also remained an important strategy for managing on a low income. This was not surprising, given the largely unchanged financial circumstances of the sample. In contrast, it was a change of circumstance that had a significant impact on borrowing behaviour.

7.3.3 Summary

Overall, the data demonstrate that many people in the sample have become more aware of the costs of using different types of credit and of debt more in general. It was especially those agencies that offered financial education services that were influential in changing respondents' attitude and behaviour with respect to debt. Another important factor was the facilitation of alternative credit sources, particularly credit unions and a change of circumstances which positively affected respondents' income. Therefore, the provision of financial advice and alternative financial services were not the only decisive factors which moved credit inclusion forward; though most people were able to make changes despite remaining on a low income.

7.4 Savings Inclusion

The previous chapter showed that about half of the sample (22 out of 41 respondents) saved some money at the time of coming into contact with the agency. Moreover, more than half of the 24 people interviewed for the follow-up stage were saving both at the time of the first interview and one year later. This points to longer term change in the sample since many of those who continued to save found it difficult to save prior to contact with the agencies; thereby somewhat confirming the view of the government that low-income consumers can be encouraged to save by providing financial education and advice. However, the issue was more complex than that. In particular, many savers did not have or use formal savings products and saved through informal methods. Therefore, the picture of savings inclusion was more varied than simply a case of saving or not saving money, with different degrees of inclusion identified. At the lower end of inclusion, people exclusively employed informal method of saving, whereas, at the upper end, people had formal savings product and made use of these. The data show that informal methods of saving were often retained in the sample after coming in with the agency and in the longer term. Nevertheless, some respondents opened and used formal savings products, particularly as a result of the influence of credit unions. These changes are reviewed below, in turn, discussing access to and use of savings products and exploring the factors that influenced savings inclusion more widely.

7.4.1 Use of Savings Accounts

Fourteen respondents (out of 41) opened a savings product with a bank, building society or credit union after contact with the agency, with an additional five having opened one by the time of the follow-up interview. The majority in this group (all but two out of nineteen) opened formal savings products when they did not have one prior to contact with the agency, suggesting that the agency supported access to savings products. Similarly, eight respondents - both with existing and new accounts - had started to put money into their account by the time of the first interview. For the majority of them, this meant new saving, since six (out of eight) respondents had not saved at all prior to contact with the agency. A different picture emerged for those who had opened a savings account by the time of the follow-up interview: four in this group (out of five) were engaged in saving activity before, either informally or formally. This finding, overall, suggest that the agencies were engaged in encouraging both first-time formal

saving as well as additional formal saving in the longer term, as was evident in two cases at the follow-up stage. In contrast, for others who opened savings account, this did not have an impact in terms of accumulating funds. This point will be discussed later.

On the one hand, the Glasgow Advice Bureau's savings group and Waterside Housing Association's savings and loans scheme were channels for promoting savings products with a bank or building society. Overall, at least three respondents got engaged with the financial mainstream this way when they did not have formal savings products before. On the other hand, credit unions had an important impact on formal savings. All agencies were, to varying degrees, involved in facilitating access to credit unions, with nine respondents having become a credit union member after contacting the agency and four at the time of the follow-up interview. The provision of financial education was important in encouraging the opening of formal savings products, as this member of the Glasgow Advice Bureau's savings group explains:

Yeah, she [bank employee] came to the group to tell us what different bank accounts you can get and stuff like that. And she was talking about ISAs and I think that made me think that I should really go and do that. So I did. (...) Occasionally I do save up on it, but then I end up just taking it all back out.

Julia, financial inclusion programme, Glasgow Advice Bureau

This comment addresses a number of factors that are relevant in order to understand changes in savings inclusion. It highlights the fact that, on the one hand, direct contact with financial services providers, such as banks, could help to overcome barriers of mistrust of financial institutions¹³¹ and encourage engagement with the financial system, while, on the one hand, highlighting the difficulty in making effective use of savings accounts when living on a low income. The latter was confirmed by a number of other people in the sample who saved, but felt that saving activity was limited due to their limited funds, partly because of low income and debt commitments. Therefore, having a savings account can only be meaningful for individuals if they are also able to make

¹³¹ This is further discussed under the heading of 'empowerment and control' later.

effective use of these through the accumulation of funds. Only then can they benefit from other facilities available (in the case of credit unions) and interest on savings.

Facilities attached to the savings products could turn the balance in favour of a particular savings product. For example, for one participant of the Waterside Housing Association's savings and loans scheme, the attractive rate of interest on savings was the incentive for him to join the scheme and save rather than any preference for a specific type of finance organisation. This confirms research that the availability of suitable savings schemes can make an impact on wealth accumulation, alongside other factors, particularly people's ability to put money aside (Rowlingson et al., 1999). This example, furthermore, shows that people in the sample made rational choices with regard to financial services, weighing out the advantages and disadvantages of using a particular financial product. The provision of financial education, in this respect, could help to increase respondents' financial knowledge and confidence (and thus their 'choice set') in making informed decisions about financial services.

The impact of credit unions: Other factors than interest on savings played a role for people who had joined credit unions during the fieldwork. The sympathy of this type of organisation for the situation of low-income consumers was a central theme amongst those who had become a member. It was particularly the encouragement of small-scale saving and the credit union's loan policy¹³² that made credit unions relatively popular in the sample as a means of saving.

They [credit union] say you know "this is that much, but by next year", say you're saving 50 pence a week you'll be able to afford this by next year. You're like "oh, if I can just keep putting 50 pence a week away" you know. Fifty pence isn't really anything. It's a cup of tea. You'll not miss 50 pence a week on a cup of tea, you won't (...).

Janice, Financial Inclusion Project

¹³² This refers to the availability of low-cost loans and the possibility of accumulating funds when repaying loans.

In contrast, banks were seen to be less sympathetic to the particular situation of low-income consumers, as this respondent highlights:

The credit union is more for people that got, more for people that's needing to put money just away for a lower amount you know. Like you wouldnae walk down if you were putting one or two pound into the bank every week. (...) A bank would just maybe turn up their nose at the money coming in [laughs].

Caroline, Financial Inclusion Project

Making people feel welcome, even when they pay in only small sums of money, is therefore an important aspect of bringing savings inclusion forward. In fact, half of those respondents (five out of ten) who had not saved prior to coming into contact with the agency started saving with a credit union afterwards. The positive influence of credit unions on members' saving habit is confirmed in the literature (Whytey et al., 2000). Overall, this finding adds another dimension to understanding the key processes of financial inclusion; namely the importance of the attitude of financial institutions towards low-income consumers in explaining financial exclusion processes. The apparent negative attitude of mainstream financial institutions towards low-income consumers is mirrored in the negative perception of mainstream financial institutions by disadvantaged consumers themselves, thereby creating a cycle of mistrust and alienation.

Financial education and money advice agencies, particularly the Glasgow Advice Bureau, also played a role in actively overcoming respondents' reservations regarding using mainstream savings products. This is illustrated by the Glasgow Advice Bureau's savings group, which was established by participants in the agency's financial inclusion programme when it first started in 2004. The agency's approach of encouraging poor people to save and, therefore, challenging the 'urban myth' that 'the poor don't save or can't save'¹³³, alongside other factors, was an important determinant which influenced the founding of the group. In addition, saving in a group context¹³⁴ encouraged regular

¹³³ Agency interview with the Financial Inclusion Officer of the Glasgow Advice Bureau.

¹³⁴ Funds from the group are collected by one member of the group, who then banks savings.

contributions to the account, as this member explains on part of the two other members who were interviewed:

I mean when you're in the group and everybody else's coming in and putting their money in. All the lassies [girls] will say - I mean it doesnae matter if it's two pounds, whatever - they'll all say "are you saving?" and you go "no" and they all go "oh, come on, just a wee ..." And you do, you put it away (...).

Emma, financial inclusion programme, Glasgow Advice Bureau

That this semi-informal method of saving was appropriate for these respondents was partly suggested by the fact that all of them were still active users at the time of the first interview and, in the case of one member who was re-interviewed, at the follow-up stage. Similarly, observation of the saving habits of credit union members who had become members before the first interview and evidence at the follow-up interview suggest that credit unions supported longer term saving amongst some respondents.

Despite the perceived and apparent positive impact of credit unions in the sample, a large number of people did not join a credit union during the course of the research. The reasons why people had not joined one were varied, including lack of knowledge and understanding of this type of organisation – in some cases, despite the provision of financial education - difficulty in physically accessing one, restricted opening hours, but also perceived or apparent inability to save, as this respondent, a single parent of one, explains:

You can't just go and borrow from them [credit union]. It's got to be borrowing combined with savings. So you can't borrow if you've no saved, but you can't save if you've no get any money to put in.

Graham, financial education workshop, Glasgow Advice Bureau

This comment, which was reflected in the accounts of two other respondents, highlights a link between different aspects of financial exclusion; namely between lack of ability to save, and, therefore, non-use of savings accounts, and access to loans. However, some people who had not joined simply had not got round to join one or felt that credit unions had no relevance for their particular situation (e.g. did not want to borrow).

Therefore, while some of them made an informed choice not to use credit unions, for others, this type of organisation would have needed to be more promoted.

In addition, as discussed before, others who became members did not put savings into their account or not as much or as regularly as they would have wished. This applied particularly to those who had joined Caledonia Credit Union through its budget service, only using it to pay off debts rather than accumulating extra funds. Two factors explain why these members made no further use of credit union services; namely a lack of awareness that these services were available and a lack of disposable income to service debt and save at the same time. In the narrow sense, this suggests that those who used the budget service, as it was intended when being set up by the credit union, did not benefit from other credit union services, such as its saving facility. In a broader context, it illustrates, again, that providing access to financial services is not necessarily sufficient for promoting their use since people may find it difficult to save because of a lack of disposable income.

Other impacts on saving activity: What is often ignored by policy makers is that one important aspect of savings inclusion is consumers' ability to put some money aside in the first place. Without this ability, having a savings account is of little use and does not lead to assets accumulation as suggested by the government. Consequently, when agencies were able to improve the benefit income of respondents, this often had a positive impact on people's saving activity.

(...) my money went from 57 Pounds to 81 pounds which has made a big difference I can tell you. That's why my two pounds coins are going away now [saves informally].

Anna, financial education workshop, Glasgow Advice Bureau

This statement signifies that even small increases of income, like £24 a week, could make an important impact on saving activity. In another case, increased income also developed into the use of formal saving products by the time of the follow-up interview. Increasing the benefit income of respondents was, however, only possible in a few cases thus reducing the impact of the agencies in this respect.

Another way of improving respondents' financial situation was through increasing their *disposable* income. This was largely achieved through debt negotiation (reducing debt payments or even writing off debt) and improved budgeting (e.g. changing spending patterns). The majority (25 out of 29 respondents) of those who discussed debt with the agency experienced positive outcomes in terms of debt negotiation. Reducing or stopping debt payments had a significant impact on people's ability to put some money aside, as several respondents who had experienced over-indebtedness previously explained. It was particularly those who had paid a significant proportion of their income to creditors before contact with the agency who felt that this puts them in a position to save.

I've no got a lot savings, but I've got money left on a Sunday, ken. (...) Maybe only 10, 20, 30 pound, but it's still better than I was before.

Lisa, Money Advice Centre

Another factor was greater prioritising of saving as part of respondents' money management strategy, as this single parent of one explains:

I've never really saved money till I came on the ... [financial education workshop] (...). When I came on that's what made me realise how to spend my money properly and what on.

Robin, financial education workshop, Glasgow Advice Bureau

Overall, 17 respondents felt that they were able to manage money better as a consequence of financial education. For most, changes to budgeting were still evident several months after having had first contact with the agency and one year after the first interview, suggesting a longer term influence of financial education on budgeting. It was not only the practical side of learning new ways of managing money more effectively (e.g. avoiding overspending when shopping), but also a change in self-perception which could make a difference to saving activity. For example, people also needed to have the confidence that they would be able to put some money aside (which was, of course, related to income). Overall, the impact of financial education on saving activity confirms to some extent claims by the government that low-income consumers can be encouraged to save. However, despite evidence of a positive impact by the agencies in promoting formal saving through the provision or the facilitation of

financial products and financial education, informal methods of saving were still popular in the sample, even with those respondents who had started to save formally. Moreover, low income had remained a major factor in explaining non-saving in the sample and limited saving activity significantly. These issues are discussed below.

7.4.2 Informal Saving and Non-saving

Several people (10 out of 41) in the sample said that they did not save at all and three of those who did not save at the first interview were still not engaged in saving activity one year later. A common theme in the sample when discussing respondents' saving activity, both before and after using the agencies and in the longer term, was the perceived difficulty of accumulating funds when living on a low income. This is particularly reflected in the experience of those who still did not save after contact with the agency and who had stopped putting money aside since then. Alongside low income, such as level of benefits, it was respondents' disposable income which often made a difference to their ability to accumulate funds. The latter was significantly influenced by respondents' debt situation and budgeting skills, as the previous chapter showed. That these factors influenced saving activity in the longer term was shown in the follow-up interviews. Among those who had not started to save by the time of the follow-up interview debt and budgeting problems were still major issues alongside the perception that it was not possible to save on a low income. For example, having (theoretically) enough income to put some money aside did not automatically entail saving activity since people, for example, lacked the confidence that they would be able to accumulate funds or did not want to save. This is suggested by the finding that there were other respondents who felt that the budgeting advice from the agency had little relevance for their own financial situation since they were already managing money as best as they could, as this respondent describes:

They [agency] just told me to do what I actually do. (...) I didn't even need the [spending] diary because I do that every week the same way.

Antonia, financial education workshop, Glasgow Advice Bureau

Although these respondents might have been able to save small amounts of money, they nevertheless felt that saving could only be achieved when moving into paid work or receiving more income. In fact, Antonia, one of the respondents who did not save

money at the time of the first interview, started to save when she had moved into work one year later. If people would have been able to save should they had tried in each case is difficult to say, nevertheless people's attitude towards saving could influence saving activity similarly to income *per se*.

Informal saving continues: Another indicator of the (longer term) difficulty of the sample in relation to saving is the continuing use of informal methods of saving, which applied to the majority of those who had saved informally before. This suggests that the services the agencies offered – with a few exceptions - had little impact on the methods used to save in the sample. Even in cases where people had started to save into a savings accounts with a bank, building society or credit union, informal ways of saving were still often employed as a convenient way to save small sums of money: a fact which is also highlighted in other research (see for example, Collard and Smith, 2006).

So it's quite a good idea as well [the credit union], but I was just sticking with the idea at my work place, putting money aside and any other tips. (...) It's at my work. If I need it it's easier. It's handy. I suppose with credit union I don't know who it is, where the office is. I think it's here. (...) So I'd have to come along here to when I'm at work anyway.

Andy, Financial Inclusion Project

On the one hand, this statement suggests that respondents sometimes still lacked knowledge about alternative, formal ways of saving and therefore were unsure about using other sources. On the other hand, however, people made a rational choice to continue informal ways of saving as the most convenient method of putting money aside when living on a low income and a strategy for coping with low income (e.g. paying regular household bills, meeting larger expenditure). As the following statement illustrates, informal methods of saving were tried and trusted and, as such, not easy to replace (fully) with formal savings products.

I still save up my, my twos [two-pound coins] (...) and I'm no gonna stop because I've been doing that, I've been doing that for years now. It was my mum that started me doing that.

Marline, financial education workshop, Glasgow Advice Bureau

It is therefore not surprising that many maintained this method of saving despite the contact with the agencies.

7.4.3 Summary

Overall, the findings suggest that saving activity were possible despite respondents' continuing precarious financial situation, giving weight, to some extent, to the government's view that low-income households need to be encouraged to save (see for example, HM Treasury, 2005). However, low income remained a major factor influencing saving activity in the sample, both in the short and longer term and despite the provision of financial education and advice. This is also suggested by the fact that the use of informal methods of saving remained popular in the sample; though there was some evidence that opening and using formal savings products replaced informal methods of saving.

7.5 Insurance Inclusion

Seventeen respondents (out of 33¹³⁵) had home contents insurance cover prior to coming into contact with the agency. Overall, five respondents had taken out insurance when they were uninsured before; whereas one cancelled her insurance provision following contact with the agency. It was notable that three of the five respondents who took out insurance were clients of the Financial Inclusion Project. In this case, information was provided by the agency about an affordable scheme that was run by the local council.

It's two pound 10 a fortnight. So it's easy to pay just the same time you're paying council tax. So it's silly having a house and not having insurance to cover yourself because there's no way I would be able to afford to buy everything again.

Janice, Financial Inclusion Project

As is indicated by the example above and that of two other clients of the Financial Inclusion Project, it would appear that the provision of financial education, combined

¹³⁵ As explained in Chapter 5, this topic was only covered in 33 of the 41 initial interviews.

with an affordable product, can make a difference to improving financial inclusion. As in the case of credit, personal preference was important in explaining why some people did not want insurance despite their awareness of an affordable insurance product. This group of respondents, as shown in Chapter 6, did not perceive the need for having insurance because of the perceived low value of possessions or the apparent low risk of burglary or damage to property. These perceptions were generally difficult to overcome: where having insurance had little priority before coming into contact with the agency, this often remained the case following agency contact or in the longer term. These respondents, therefore, made an informed choice not to take out a policy: a point which is often neglected in the literature.

The importance of perceived value of possessions for taking out insurance is confirmed by two respondents who took out insurance after getting ‘nice things’ for the house.

(...) I’ve started to get nice things for my house. [Adviser]’s helped me to get lots of stuff for the house and that. There’s no point, you know not having house insurance.

Janice, Financial Inclusion Project

However, low income remained a major barrier for taking out a policy despite the availability of an apparent affordable insurance scheme, as this respondent explains:

At the time we were doing the financial report, there was no way at all that I could afford to get home contents insurance, no matter how cheap it was. She [adviser] provided me with literature (...) to show that once I got back into work for as little as maybe two pound 50, three pound a week that I can get a basic package, you know.

Louise, Financial Inclusion Project

The importance of income in influencing people’s decision to take out insurance is also suggested in the literature (Kempson, 1999; Whyley et al., 1998). Therefore, while the availability of affordable insurance schemes can be a decisive factor in low-income consumers’ decision to take out an insurance policy, low income remains a crucial factor.

7.6 The Extent of Improved Financial Inclusion

The data demonstrate that several aspects of respondents' experience of financial exclusion have changed through the support of the agencies. This study, therefore, is consistent with research that attests financial inclusion initiatives to have a positive impact on beneficiaries' lives and, to some extent, confirms the success of the government's financial inclusion strategy.

There was evidence for a direct impact of the agencies on financial inclusion in terms of improving access to financial services as well as their use. For example, financial education increased awareness of financial products and thus expanded the choice sets of respondents; to use the phrase of Le Grand (1991). Other services had an indirect impact and provided a basis on which changes in financial inclusion could build, particularly money advice services. Overall, the agencies' services were decisive in bringing financial inclusion forward in all areas, though to varying degrees. If financial inclusion is imagined as a continuum, as is proposed by some authors (see for example, Speak and Graham, 2000), most people in the sample had moved forward on the financial ex-/inclusion spectrum to some extent during the course of the fieldwork, either in terms of gaining access to financial services or beginning to use these. Only four respondents can be said not to have experienced improved financial inclusion in any way, partly because of their difficult personal circumstances and lack of contact with a money adviser to discuss debt problems. These respondents got into more financial difficulty after contact with the agency, in part because issues of financial exclusion, such as access to appropriate credit products, had remained unresolved.

Improving financial inclusion is not a straightforward process. Even in terms of improving access it is not easy to tell whether financial inclusion has improved, since the financial products to which individuals have gained access might not be appropriate to their needs and circumstances, or are difficult to use. Although this is a relatively straightforward matter in the case of some financial products, such as insurance, the issue of the appropriateness of financial products and their usability are of greater significance for others, particularly bank accounts. Overall, different levels of financial inclusion can be identified. At the lower end of the scale, individuals have only access to one or two financial products and either do not make use of these or only use them to

a limited extent. At the upper end of the spectrum, individuals actively and comprehensively use a range of mainstream financial products and services that are appropriate to their needs and circumstances.

That people in the sample had gained access to a range of financial services was evident in many cases. By the time of the first interview:

- Three respondents had opened bank accounts;
- Nine had joined a credit union;
- Six had opened a savings account with a bank or building society; and
- Five had taken out home contents insurance where they did not have these products before.

Despite access to financial products, use of these was not always a given. All in all, seven (out of 35) banked people, at that time, made no use of their bank account whatsoever, with several other respondents making only very limited use. Similarly, six (out of 14) with savings accounts did not use these and the majority of those respondents who had saved informally before contact with the agency continued the use of informal methods of saving afterwards. These respondents, therefore, can still be said to be financially excluded to a great extent. At the other end of the scale, seven had become included into the financial system to a significant degree; though *full* inclusion - in the sense that individuals are appropriately served by mainstream financial institutions (see for example, European Commission, 2008a) - was generally not achieved because a range of barriers to financial inclusion remained following contact with the agency.

This group of respondents found it helpful to make (some) use of direct debits, saved regularly into a savings account with a bank, building society or credit union, and some took out home contents insurance and borrowed from credit unions rather than more expensive lenders. Why these respondents moved along the financial ex-/inclusion spectrum to a great extent while others had not can be explained by a complex set of factors. While it was true that one of them was only able to introduce a range of changes when she had started to work, the circumstances of most were not different. It was notable all (except one) of them used financial education agencies. However, this alone

does not explain the extent of change in this group: it also needs to be accredited to the perceived relevance of financial products and respondents' willingness to manage finances differently. Different aspects of financial inclusion could reinforce each other. Links were, for example, identified between savings and banking inclusion. Three respondents had set up automated payments for saving regularly into a bank or credit union savings account. A link was also identified between credit and saving inclusion, with the possibility of obtaining a loan from a credit union being an important incentive to save. Moreover, the fact that they were able to save some money increased respondents' confidence that they would be less likely to need to borrow in the future.

The links between improved financial inclusion and the wider aspects of people's lives, their quality of life and life chances are discussed below.

7.7 Links between Financial and Social Inclusion

Initiatives to improve financial inclusion are generally strongly associated with bringing forward other aspects of social inclusion as well. Therefore, financial inclusion initiatives aim not only to increase consumers' access to and usage of financial products, but also to create wider positive outcomes, particularly for low-income and otherwise vulnerable individuals, most notably in relation to over-indebtedness, unemployment and poverty (see for example, HM Treasury, 2004, 2007a). This section is central to the research in that it reviews evidence of links between greater engagement with the financial system and its impact on the wider dynamic processes of social inclusion. It will, in turn, discuss impacts on poverty, employment, social relations, and empowerment and control.

7.7.1 Poverty

It was pointed out in Chapter 3 that financial exclusion is associated with greater costs (see for example, Speak and Graham, 2000; Strelitz and Kober, 2007). This has been confirmed in the context of this research. Greater costs with regard to financial services were particularly associated with using expensive credit and prepayment meters for paying utilities. While the use of prepayment meters had remained the preferred method of paying for utilities in the majority of cases where respondents had previously used

this method of payment, more interviewees reported that they had stopped using expensive credit or used credit more sensibly.

Credit unions: It is central for the government's financial inclusion strategy that people have access to affordable credit, particularly credit unions, in order to cope with financial pressure and variations in income and expenditure (HM Treasury, 2007a). Joining a credit union was perceived to be beneficial by most members. One of the perceived advantages was that they were able to borrow at an affordable rate of interest without becoming over-indebted (again), as this respondent exemplifies:

[How has that changed things for you joining the credit union?]

Because I'm ... no using my catalogues or using Shopacheck or because I'm relying on this noo and its, its no get any you know what I mean high interest rates or I mean - it's a lot better. (...) I'm no lying in my bed at night going "oh, my god. I need to pay such and such to something tomorrow and there's only three pounds coming off it [the rest is interest]".

Emma, financial inclusion programme, Glasgow Advice Bureau

Six respondents had a loan with a credit union (one of them at the follow-up stage). Most of them (four out of six respondents) felt that it offered a real alternative to the more expensive sub-prime and mainstream credit sources they had used before, hence possibly avoiding future debt problems. In fact, three (out of four) respondents reported that they had not used expensive credit sources again since joining the credit union, suggesting a longer term impact of this aspect of financial inclusion. Not only were certain types of credit perceived by respondents as assisting their ability to manage financially, but advantages were also perceived in relation to using credit sources more sensibly. Therefore, the type of credit alone was not decisive in determining good money management: respondents also needed to have a good understanding of, and the ability to make good use of, credit. The same source could either be beneficial or disadvantageous to respondents' financial situation, depending on how they used credit.

Banking: That individuals are able to save on utility bills by paying by direct debit is a key argument in the literature and by policy makers seeking to promote financial inclusion (see for example, Drakeford, 1997; HM Treasury, 2004). In the sample, the use of direct debits for paying utilities was not widespread, and for those who used

automated banking, the benefits of using this facility were generally not perceived in the context of saving money but rather for easing money management. It was particularly those people in the sample that had found it challenging to manage money in cash before who said that using direct debit had improved their ability to handle finances, as this respondent, exemplifying the situations of three others, explains:

No, handling money in cash is not good for me. It's just I get too confused. I like to get it so that everything is in standing orders or direct debits and then I know at the end of the month what I need to have in the bank to cover it. So, so then I can deal with that.

Raymond, Community Help Centre

For two in this group, lack of any experience of handling money in the past impeded money management, and health issues also impacted on two. Direct debit particularly improved the management of regular household commitments, as this respondent, who made comprehensive use of direct debit, describes:

(...) I now don't need to think or worry about any of them [bills]. I know all the household bills that are coming in are getting paid. (...) I don't need to put any thought process into it because its set up, it's automatic: set day, set amount, set bill. Come the end of the year they'll balance it. (...) So they do all the sorting out of the finances. All they do is let me know and say "is it okay to take like that extra five?" (...).

Fiona, Community Help Centre

Others, too, who made more limited use of automated banking felt that using direct debit helped them to manage household commitments. Alongside the positive feeling of knowing that all bills are getting paid, an important link to over-indebtedness is also suggested. The quote above and the comments of others suggest that using direct debit, to some extent, helped avoid getting into arrears on household bills and consumer credit commitments, for instance through being able to spread the costs of larger household bills evenly across the year. Automatic payment of bills also ensured continuous private service provision since some respondents reported that they had 'forgotten' to recharge prepayment meters or pay utility bills in the past. Another link to service exclusion is suggested in respect of access to new information technologies: in one case, a respondent had to use the bank account of a friend in order to get internet access.

Therefore, such services, like internet access, which generally need to be paid by direct debit, are not accessible for people without bank accounts.

Similarly, money management can be made easier through the fact of just using an account; though not any direct debits. One of the perceived advantages of having an account was the more flexible access to money as opposed to using POCA's which can only be used at post offices.

Well, the post office shuts at five o'clock. (...) I can go to the bank at any time. So that's a lot handier.

Antonia, financial education workshop, Glasgow Advice Bureau

The findings, to some extent, confirm statements of policy makers and in the literature that good financial management is associated with using a bank account and using direct debit (HM Treasury, 2004, 2007a) and that being unbanked or underbanked is associated with a more complicated, time-consuming and expensive strategy for handling finances (see for example, Collard et al., 2001; Kempson and Whyley, 1999b; McKay and Collard, 2006). However, negotiating with banks and companies about the imposition of bank charges and carrying the consequences of charges imposed on individuals can be similarly time-consuming and damaging to people's finances. Banking inclusion, therefore, does not provide unambiguous benefits for individuals. Access to financial products can only be one aspect of bringing financial inclusion forward: whether people are able to make effective use of available products is important too. The appropriateness of financial products, however, needs to be seen in relation to individuals' particular situation. Even those who found using direct debit generally beneficial for managing money, experienced the imposition of bank charges occasionally. In these cases, the benefits of using the facility, however, outweighed its disadvantages since they found it difficult managing money in cash. For those who preferred handling a cash budget, the use of direct debit, however, presented a risk they were not prepared to take. Therefore, to promote meaningful banking inclusion, people need to have a similar level of control and flexibility with direct debit to that they have with managing money in cash.

Similarly to the use of direct debit, using alternative banking services offered greater control over finances and, therefore, assisted money management. This was confirmed by all four who made use of online or telephone banking.

And then because I do the internet banking I check it [bank account] every day, so I do. I get up first thing in the morning and see what is left and what came off it and what I had left. So I knew what I was spending.

Emma, financial inclusion programme, Glasgow Advice Bureau

So now I've got you know if I need to know has a bill been paid or a query about my account, they [bank] give me a number I can just phone up. I give them a password and I say "right, can you transfer funds from this one or pay my Visa". (...) and they do it all for me. So I'm not having to think "right, I need to go down and get, now there's that slip? Oh". I mean I put things down as well and I lose them.

Fiona, Community Help Centre

The use of these services were also felt, to some extent, to alleviate the consequences of finding it difficult to access bank branches physically since money transactions could be undertaken online or over the telephone. Despite evidence of the beneficial effect of these (relatively) new forms of banking services, they are often not discussed in the financial inclusion literature.

Other financial services discussed in the chapter improved money management as well, including having savings¹³⁶ and home contents insurance. These services helped people to manage better financially when living on a low income (e.g. paying bills, replacing stolen or damaged property); hence possibly avoiding future financial difficulties and further impoverishment.

Summary: This study shows that financial inclusion contributes to processes of social inclusion through an impact on impoverishment. The use of credit unions in particular was felt in the sample to reduce costs since all of those who had become credit union

¹³⁶ This was more associated with the availability of savings *per se*; rather than the type of method used to save.

members had used more expensive sources of credit before. Similarly, the way that people used available credit sources was found to have a beneficial effect on respondents' financial situation; not in the sense of increasing income *per se*, but through the avoidance of further impoverishment. Despite claims in the literature and of policy makers about the beneficial effect of using direct debits in terms of saving costs, this was generally not perceived by respondents and few used direct debit for paying utility bills. However, new and old users of the facility who continued to use direct debit after contact with the agency felt that automated banking, to some extent, helped with money management. Similarly, this applied to the use of alternative banking services.

Although financial inclusion decreased the costs associated with using certain products and could improve money management, which, in turn, had an impact on how people felt able to manage financially (including avoiding new over-indebtedness), the income of most respondents had remained unchanged or even decreased during the course of the fieldwork. This meant that although the provision of financial education, debt negotiation and financial services helped many to cope with the consequences of living on a low income, the vast majority in the sample still lived on benefits as their main source of income; thus their income had remained low. Where income had increased this happened as a consequence of benefit advice or taking up employment. Financial inclusion did not increase income directly, rather it helped people to cope better with the money that was available to them, hence increasing *disposable* income. It helped them to cope with living in poverty rather than changing the conditions under which they lived.

7.7.2 Employment

Although often claimed in the literature (see for example, Clark and Aynsley, 2008), a direct link between increased employability and having a bank account was not supported by this research. Although respondents felt that having a bank account was important when moving into work, they did not see it as a pre-requirement for entering the labour market, with other factors, such as a lack of formal skills, low confidence, a lack of childcare provision and jobs in rural areas, having been of greater concern

amongst those who wanted to move back into work¹³⁷. Moreover, the sample included at least two respondents who were able to enter the labour market without having a bank account; though one of them was requested by his employer to open one. They were still paid in cash at the time of the follow-up interview. Although not perceived as a pre-requirement for entering the labour market, having a bank account nevertheless eased the transition from benefit to work since wages could be directly paid into an account without delay.

However, improved financial inclusion influenced factors that, in turn, might help respondents to move into work in the future. This included an impact on money management (including avoiding over-indebtedness and shortfall of disposable income) and, associated with this, less stress and improved health and well-being, as this respondent expresses:

Noo that I'm on my feet and know what I'm doing then I can relax a bit more. And I know I can get time to study and stuff, you know. But before I would have been stressed out and I wouldn't have been able to do it.

Julia, financial inclusion programme, Glasgow Advice Bureau

Managing money better was associated with increased confidence, as this respondent describes:

I'm feeling a lot more confident and a lot more able to sort of deal with a lot of things in general in life. Now I'm looking at "yeah, I can do full-time" [work].

Fiona, Community Help Centre

These comments highlight the many factors that needed to come together in order to support people's efforts in changing their situation for the better. Financial inclusion, in this context, could play a role, alongside other factors.

¹³⁷ These factors also remained an issue in the longer term, as the relatively low level of movement into work or training during the fieldwork indicates.

7.7.3 *Social Integration and Participation*

Social integration and participation in social activities are important elements of individuals' wider participation in society and form one aspect of social inclusion (see for example, Gordon et al., 2000). The research identified a range of factors that are relevant in promoting this aspect. Inclusion in social relations was influenced by an improved financial situation of respondents (in general associated with over-indebtedness and money management) and, related to this, improved health and well-being, as well as a greater sense of power and control. These factors were all inter-related. For example, money management influenced health and well-being and vice versa. On the one hand, improving respondents' debt situation – with the support of financial inclusion – had an impact on social relations in material and emotional terms. On the other, the impact of financial inclusion on people's feelings of empowerment and control was an central theme in the sample which significantly influenced social integration and participation. These aspects are discussed, in turn, below.

Debt problems: Since the agencies employed a range of strategies to help respondents paying off debts, and given the negative impact of over-indebtedness on people's psychological and physical health and well-being (e.g. stress, worries, sleepless nights) and the strain it could put on relationships, it was not surprising that an improved debt situation had an important positive impact on respondents' social environment. This was the case in material terms (e.g. more money to spend on social activities/days out with family) and emotionally (e.g. not arguing with partner or children).

Your kids aren't missing out. You're not missing out and your house is all looked after. You've got food in the fridge. You can go do the shopping. You can afford to pay to look after the wee one (...). Everything just works out so much easier. It's brilliant.
Janice, Financial Inclusion Project

While this respondent, whose debt payments were reduced to a small fraction of what she had paid before, describes the material aspect of debt negotiation, another respondent highlights more the emotional element of it.

Oh, it [debt negotiation] makes a fantastic difference, you know. You're no arguing with your wife for a start. She's not arguing with me.

Charles, budget service Caledonia Credit Union

Debt problems were often perceived to be an embarrassing topic to talk about, and some had struggled for a considerable length of time¹³⁸ on their own without telling relatives or friends. This put considerable strain on social relations since they were too embarrassed to admit their financial difficulties to others and, as a consequence, became isolated and withdrawn from society, as this respondent describes:

I wasnae socialising because my friend was phoning "do you fancy going for your lunch today" and I was like "what?" I couldnae afford to go out for my lunch. But then I wouldnae admit to them that I couldn't afford to go for my lunch, eh. And "we go to ken the local pub" and I was like "no, I really cannae. I'm busy or I'm doing something or", ken. Really, really stupid when I think about it noo.

Lisa, Money Advice Centre

It was a common feeling amongst those with debt problems that they were alone with their experience of over-indebtedness. Talking to the agency helped respondents to realise that their experience was not an isolated one. This had helped some to feel less ashamed of their situation and to be more open about it to other people, thus supporting social relations.

Now I'm starting to meet more and more people cos we've all been in the same boat. We've all got family, we've all got kids and everybody goes "ah, we've all been there [debt problems], don't even worry about it" (...).

Janice, Financial Inclusion Project

Even when debt had not been repaid by the time of the first and follow-up interview – which was the case for most of those who had experienced debt problems – there were

¹³⁸ This meant several years in some cases.

positive feelings associated with having gained more control over a previously chaotic debt situation as this respondent explains:

Since I got in touch wi [credit union] and the budgeting service things have been a lot easier. (...) It means I've got a better life. Put it that way. You know I've no got the worries or the hassle of saying "no, no, I've paid I'm paying that. I've no paid that". I don't dae that anymair. As long as I pay my budget account all my bills are getting paid.
Charles, budget service Caledonia Credit Union

While in the literature the positive impact of debt advice on service users is stated, it is also suggested, as pointed out before, that positive feelings might decrease over time. The study confirms this latter point to some extent since people still worried about debt. In the case that respondents had to wait to go to court the situation could be particular stressful since nothing could be done about changing the situation until taken to court by creditors. Despite these stresses and strains, respondents, nevertheless, felt relieved that their debt situation was under control and were glad for the support of the agency, as this respondent, who had waited more than five years for sequestration by the time of the follow-up interview, explains:

I mean the worry is still there about the debts, but everything is fine, you know apart from that, you know... I've got everything sitting on an even keel, you know apart from as I say the debts [laughs]. (...) I feel a lot easier, you know knowing that there is somebody there that's sort of backing you all the way [till sequestration] (...).
Maureen, West Edinburgh Advice Cooperative

Financial inclusion could also contribute to feelings of empowerment and control in the sample. These are discussed below.

Empowerment and control: An important aspect of improved financial inclusion was its impact on feelings of empowerment and control. This related to respondents' perception of themselves as an independent, confident financial 'being', as this respondent explains:

Yeah, it's [having a bank account and setting up direct debit] helped me as to stand on my own as in [the past] I had to go to my friend and go "listen I want internet, but I don't have a bank account" and she said "okay, we'll pay that in mine" and I'll just give her the money; whereas now it's a case of its coming out of mine. It's not - I don't rely on anybody else.

Alison, financial education workshop, Glasgow Advice Bureau

Given the difficulty with accessing mainstream financial products for some respondents, alternative providers which offered easier access to financial services than mainstream financial institutions, such as credit unions, strengthened respondents' sense of independence in these cases.

(...) like when I went to the bank I had to go and take my dad with me [to get a loan]. When I'm going up there [credit union] I'm going up myself. I'm no having my dad with me to try and go guarantee for me. I'm going up there on my own and it's me that's doing it.

Emma, financial inclusion programme, Glasgow Advice Bureau

A sense of control was also associated with having some savings. This was reported by some respondents as lessening the worry of experiencing debt problems again.

I will have a nice Christmas next year because I've got money there – it's my money that I've saved. I don't have to borrow. I've saved it. Feels good.

Janice, Financial Inclusion Project

It's a good feeling just to have that wee bit of back-up. (...) I have very little [savings], but it's still mine. It doesn't belong to anybody else.

Marylyn, West Edinburgh Advice Cooperative

Moreover, it filled these respondents with pride that they were able to save when they had not believed in their ability to save before contact with the agency. They felt that they were able to better provide for their family and give themselves and their family a better quality of life, also in the longer term.

To know that I can do that. Save up and maybe not having to rely on other people to help me. I could do it myself. (...) I just find that if I want something now that I can save up for it. And then if you save up like you feel better.

Julia, financial inclusion programme, Glasgow Advice Bureau

But that's me got a family and I'm able to provide for my family cos it's money that I've saved.

Janice, Financial Inclusion Project

Home contents insurance, too, had positive connotations.

[Partner] Peace of mind really. You need that [insurance].

[Cornelia] Oh, aye. We can't live without the house insurance. God forbid if something happens to the house. Dear God you'd be left with nothing.

Cornelia, Waterside Housing Association

These statements suggest that financial exclusion could lead to people feel stigmatised and degraded. Consequently, having access to these services and being able to use them empowered people and evoked in them a sense of independence.¹³⁹ This shows that financial inclusion can mean more to some people than simply having a facility for, for instance, the transmission of cash. It has psychological benefits for users. Despite the importance of this link, there is still a dearth of literature that explores it.¹⁴⁰

It was also shown in the sample that knowledge often meant power. In financial terms this meant for example the confidence to make financial decisions or question the doings of financial institutions, as one respondent explains:

¹³⁹ In the case of savings, this was more associated with the availability of savings *per se*; rather than the type of method used (i.e. using a savings account or informal methods of saving). However, in this context, the availability of appropriate savings products could positively influence saving activity.

¹⁴⁰ Exceptions are the research of Gloukoviezoff (2004) and Jones (2008a) and some of those studies which evaluate policy initiatives (Harvey et al., 2007). Jones' research, in particular, highlights the psychological benefits of having a bank account for ex-prisoners, the status it brings and feelings of inclusion within society.

(...) I thought maybe well I should just go and ask [about bank charges], you know. So I did. ... Just a bit more confidence and stuff through being in the group. I feel like I know more about what I'm talking about.

Julia, financial inclusion programme, Glasgow Advice Bureau

This statement suggests that increased confidence with regard to financial services could lead to more engagement with other people, including bank staff. This had not only implications for social relations but other processes of social inclusion, including employment, as was discussed above. Therefore, financial inclusion is an important aspect of increased social integration. This study, however, does not suggest a direct link between financial inclusion and social relations. Rather financial inclusion contributes to social inclusion through its impact on feelings of autonomy and control, and over-indebtedness.

7.7.4 Summary

This section offers a systematic account of the impact of financial inclusion on the central aspects of social inclusion: poverty, employment, social relations and, to some extent, service inclusion. Rather than a direct impact, financial inclusion influenced a range of factors which intervened in the financial-social-inclusion relationship, including improved money management (including over-indebtedness), and feelings of empowerment and control (including health and well-being). For example, using direct debit could positively influence the effectiveness of respondents' money management, which in turn could reduce the risk of over-indebtedness and thus, further impoverishment. Improved financial inclusion, therefore, is part of the processes that lead to (more) social inclusion; whereas particularly protective services such as credit, savings and insurance had a positive impact.

However, it is too simplistic to assume that improved financial inclusion is an instrument for poverty eradication. The people in the sample have remained poor despite the provision of financial services and increased use of them. These services can help individuals to cope better with living a life in poverty, and hence improve poor people's quality of life, but they cannot change the conditions under which they live. Moreover, the impact of improved financial inclusion on processes of social inclusion

needs to be contrasted with the continuous significance of social inclusion for individuals' engagement with the financial system. Overall, although financial inclusion is an important aspect of social inclusion processes, other factors have a more direct impact. For this reason, promoting financial inclusion can only be one aspect of bettering the lives of disadvantaged people.

7.8 Conclusion

The key objectives of this chapter were to understand the central processes that lead to financial inclusion and to explore the wider impacts of improved financial inclusion on people's lives, specifically more general links to processes of social inclusion.

The data demonstrate that several aspects of respondents' experience of financial exclusion have changed through the support of the agencies. Their services were decisive in bringing financial inclusion forward in all areas, though to varying degrees. The impact on credit inclusion was most significant, particularly with respect to using credit and promoting credit unions. This is an important finding which suggests that the common use of sub-prime credit in low-income communities can be overcome through the provision of financial information and advice, and facilitating access to cheaper alternatives. Credit unions, in particular, had a real advantage over the use of more expensive sources of credit, not only because they charged less for credit than, for example, doorstep lenders, but also lent more responsibly. Similarly, the encouragement of formal saving in the sample supports the argument that people on low income do have choices when it comes to deciding which financial services they want to use and how they want to make use of these. This also applied to the use of home contents insurance, with the difference that some respondents had decided against the use of this product despite the availability of an affordable insurance scheme. In both examples, informed choice played an important role.

As pointed out before, interviewees perceived financial inclusion often in terms of whether this had a positive impact on their money management; as such making well-considered choices about financial products and services. The findings demonstrate that this was still the case after contacting the agency, with significant consequences for the use of banking services in particular. The agencies had a limited impact in these cases,

since it was beyond their control to change the product design or delivery of available financial products. In addition, some barriers on side of the individual were more difficult to overcome in the short and longer term, particularly mistrust of banks, partly because this was based on negative experience with banks and continuous distance from mainstream financial institutions. Overall, problems with accessing and using financial products were often related (directly or indirectly) to low income, which, for example, meant that the possibility of incurring charges of up to £40 for unpaid direct debits made comprehensive – or for some, even limited - use of automated banking too risky when living on a low income. This needs to be taken into account when conceptualising financial inclusion policies as a factor which significantly influences the likely success of initiatives.

The study, overall, shows that it is too simplistic to assume that financial inclusion is an instrument for poverty eradication. Although improved financial inclusion alleviated some of the effects of financial hardship and promoted social justice, it did not necessarily ‘provide routes out of poverty’ or help individuals to sustain a lifestyle free from poverty, as proposed by the Scottish Executive’s financial inclusion action plan (Scottish Executive, 2005a). In fact, it was a positive change in respondents’ personal circumstances, such as an increase in income – even by a small amount - or taking up employment that often had the biggest impact on respondents’ engagement with financial services. Therefore, alongside the provision of financial services, education and advice, financial inclusion initiatives need to be supported through policies that tackle the disadvantaged position of financially excluded individuals in society more broadly.

This is also supported by evidence on the links between financial and social inclusion. Here, the findings suggest that financial inclusion generally did not have a direct impact on social inclusion processes, but influenced these through a range of other factors such as feelings of empowerment and control, which, in turn, encouraged some respondents to take a more positive and confident stance in life. In contrast, changes in circumstances often had a direct impact on improving financial inclusion. In addition, debt negotiation and improved budgeting often provided a basis on which changes in financial inclusion could be built. The chapter, therefore, concludes that promoting full or meaningful financial inclusion needs a holistic approach. Such a strategy needs to

target a complex set of demand-side and institutional barriers (e.g. product design and delivery) as well as the underlying causes of financial exclusion. Lack of financial knowledge and skills, in this respect, are only two of the factors causing financial exclusion. For policy makers the study suggests that a greater focus needs to be given to supporting financially excluded people in their attempt to move into work and improve their financial situation. For the agencies which offer financial inclusion services, this implies the need for partnership working between financial inclusion initiatives and agencies that tackle social exclusion more directly, such as employment agencies.

Although, overall, it is too simplistic to assume that financial inclusion is an instrument for poverty eradication, it nevertheless is an important means of helping low-income consumers to cope with poverty and can have qualitative impacts on beneficiaries' lives. Protective services such as credit union loans and savings in particular had a powerful impact on the lives of many people in the sample.

The next chapter – Chapter 8 – will conclude the research. It brings together the main implications that have evolved from the analysis of the experience of service users and discusses the findings within the wider framework of theory and policy.

Chapter 8 - Conclusion

The central objective of the research was to gain a better understanding of the relationship between improved financial inclusion and the wider dynamic processes of social inclusion. In order to examine the links between these two concepts the following research questions were proposed:

- What are the key processes that lead to financial inclusion?
- What are the wider (longer term) impacts of improved financial inclusion on the lives of disadvantaged people, their quality of life and life chances?
- Specifically, how does improved financial inclusion link to the broader dynamic processes of social inclusion?

The first part of this chapter brings together the evidence from the preceding chapters and highlights the contribution of this study in answering the research questions. The second part discusses the implications of the research for theory and future policy initiatives as well as priorities for future research.

8.1 The Links between Social and Financial Exclusion

Chapter 2 and 3 made the links between the notion of financial exclusion on the one hand and poverty and the broader concept of social exclusion on the other. The first of these two chapters provided an in-depth understanding of the emergence of financial exclusion from the concept of social exclusion and offered a theoretical overview of the development of the financial exclusion concept. It highlighted *inter alia* the similarities and differences between the two phenomena and the relationship between them. In particular, being excluded from service provision, such as financial services, was recognised to be one of the processes that leads to social exclusion. Service exclusion is related to other aspects of social exclusion, particularly labour market exclusion, and contributing factors such as poor health and disability. In addition, economically disadvantaged households often ‘face poorer-quality services’ (Fisher and Bramley, 2006: 227). Low income frequently reinforces constraints on service usage, particularly in the utilisation of private services where affordability plays a greater role than in the case of public service usage. Poor quality services and limited access to service provision, in turn, are often concentrated in deprived and disadvantaged communities

and are associated with further decline and deterioration of neighbourhoods and the life chances of residents. One of the processes that is of particular relevance to the research is the process of withdrawal of financial services from areas of deprivation and rural areas, which have always been relatively deprived areas in terms of branch banking service provision. This aspect of service exclusion is extensively discussed by Leyshon and his colleagues (see for example, Leyshon and Thrift, 1993) and other authors.

While Chapter 2 offered a theoretical overview of the development of financial exclusion as a concept, Chapter 3 aimed to discuss the phenomenon in empirical terms. It provided detailed insights into the scale of the problem in the UK and Scotland, its causes, and the social and economic consequences of being financially excluded. The studies that were reviewed in Chapter 3 also provided a departure for a better understanding of the processes that might lead to improved financial inclusion and the impacts this might have on individuals' lives.

Financial exclusion is a phenomenon which disproportionately affects various types of disadvantaged social groups, such as single parents, people living in the social rented sector and those generally living on a low income. The experience of non or low engagement with the mainstream financial system is also more prevalent in areas of deprivation. According to the analysis of Kempson and Whyley (1999b), in the mid-1990s, seven per cent of households in Britain (around 1.5 million) were without any mainstream financial products. In addition, 19% were only marginally included, having only one or two financial products. One of the central social processes which leads to financial exclusion is found to be changes in personal circumstances, particularly those that negatively affect people's economic situation. Becoming unemployed or experiencing a relationship break-up can have an adverse effect on people's experience of financial exclusion, in the sense that people may close down or stop using bank accounts or find it harder to access mainstream credit. These exclusionary processes can be captured in a specific set of barriers that explain why people decide not to use financial products or facilities on the one hand, or are denied access to certain financial services by financial institutions on the other. In the literature, these are broadly divided into institutional (supply-side) and individual-based (demand-side) barriers; whereby the latter often, but not exclusively, explain issues of problems in using services and the former tends to create difficulty in accessing financial services. One of the benefits of

categorising barriers this way is that it sheds light on the phenomenon of financial exclusion from different perspectives: the procedures of financial institutions on the one side and the needs and preferences of consumers on the other.

While financial exclusion is influenced by processes of social exclusion more broadly, the experience of financial exclusion, in turn, is argued to have significant financial and social consequences for both individuals and communities. At the individual level, financial exclusion is associated with higher costs (especially use of prepayment meters and sub-prime credit), money management problems, over-indebtedness (and associated with this, poorer physical and mental health and reduced well-being) and reduced employability, which has been argued to be particularly associated with having no bank account. The evidence, therefore, points to a mutual relationship between social and financial exclusion, with social exclusion playing a role in predicting financial exclusion and vice versa.

8.2 Policy Responses to Financial Exclusion

Despite the evidence that processes of social exclusion play a key role in influencing financial exclusion, the UK government and its devolved administration in Scotland initially focussed on product design and delivery. In particular they sought to counter barriers that were influenced by institutional changes in the finance market, such as the ‘flight to quality’ and the use of new information technologies to improve risk assessment. Only more recently has there been a greater emphasis by both governments on improving financial knowledge, information and advice. The change in policies from improving product design and delivery to promoting initiatives that help consumers to use financial services more effectively and increase financial knowledge is an important one because it implies a stronger focus on demand-side barriers, which was ultimately reflected in the government’s conceptualisation of financial inclusion (HM Treasury, 2007b). Although a positive step, several studies show the limits of such an approach in practice. This research highlights the large number of banked people who make little or no use of basic bank accounts and who prefer familiar methods of managing money, such as paying bills through the post office (see for example, Collard et al., 2003a).

8.3 Evidence of a Positive Impact of Improved Financial Inclusion

A review of the financial exclusion literature showed that, while a large body of work illustrates the problem of financial *exclusion* and highlights the remaining gaps in the government's financial inclusion strategy, there is a dearth of studies that are more specifically concerned with issues of financial *inclusion* and the impacts of improved financial inclusion on people's lives. Only recently has there emerged a growing body of literature which had identified this gap and, alongside this research, explores the wider implications of becoming more financially included. These studies argue, for example, that saving has a positive impact on people's health and well-being, in terms of a heightened sense of security, empowerment and control. Others highlight the positive effect of having/using a bank account on individuals' money management strategies, employability and individuals' well-being more generally (e.g. confidence, self-esteem, sense of empowerment), though this body of literature has yet to explore more systematically the full effects of improved banking inclusion.

These studies are important since they suggest that improved financial inclusion has a positive impact on individuals' lives. However, they do not refer to the processes that lead to improved financial inclusion or the (longer term) impacts of greater engagement with the financial system; nor what aspects of inclusion cause changes. The effects of improved financial inclusion and the benefits of participating in financial inclusion initiatives more generally are often not disentangled. Furthermore, there is still a lack of research that explores these links in depth, its focus being instead directed at an evaluation of the feasibility of new initiatives or the cost-effectiveness of particular projects. As argued in Chapter 1, and highlighted throughout the thesis, the aim of this research was to fill this gap and provide a better understanding of these links. This was largely achieved through the conduct and analysis of initial and follow-up interviews with users of financial inclusion initiatives approximately one year after the first interview. These formed the main part of the empirical analysis of the thesis. The fieldwork included 41 participants at seven financial inclusion agencies at the first stage and a sub-sample of more than half of the original sample (24 out of 41 respondents) at the follow-up interview. The participating agencies were chosen from the 19 agencies which were originally interviewed when exploring the field in a round of agency interviews. All organisations were involved in the promotion of financial inclusion,

either through the provision of financial advice, education, or of financial products. In terms of the delivery of the latter service, the research covers particularly credit unions; whereas the work of CDFIs was not covered, partly because of a lack of community finance initiatives that offered personal financial services in Scotland at the time. To explore the work of this type of organisation would have been valuable in the framework of this study.

The experience of both poverty and financial exclusion was widespread in the sample. In terms of the latter, although only a few respondents had no bank account prior to contact with the agency, a large number of people with bank accounts made no or limited use of these. Some were also refused credit, and many used sub-prime credit or did not save formally into savings accounts with a bank, building society or credit union. In addition, there was also a lack of awareness of affordable home contents insurance schemes amongst some interviewees; though a relatively large number of respondents stated that they had insurance cover. The findings of these interviews were discussed in Chapters 6 and 7 respectively. Given the novelty of this research and the dearth of data to measure the *qualitative* impacts of improved financial inclusion on the lives of people who use financial inclusion services, the central research approach of this study was qualitative. This meant utilising in-depth interviews in order to explore systematically and thoroughly the various aspects of financial ex-/inclusion and its relationship with processes of social ex-/inclusion. All initial and follow-up interviews undertaken with service users were verbatim transcribed and systematically analysed by using a coding frame. In light of the research questions, the key findings of the in-depth interviews with service users are explored below.

8.4 Key Financial Inclusion Processes

The research demonstrates that respondents' experience of financial exclusion was improved in many ways following contact with the agencies. People were able to access and started to use financial services more effectively, including banking services, credit, savings accounts and home contents insurance (particularly through insurance-with-rent schemes). Facilitating access to financial services, either through direct provision through the agencies or other financial services providers, and the provision of financial education, information and advice were decisive in bringing financial inclusion forward.

In this context, credit unions played a significant role in the promotion of appropriate, affordable financial products and services. Alongside the provision of financial services and advice, people's own circumstances (particularly changes in personal circumstances, which positively affected people's financial situation), their attitudes and social networks played a significant part in explaining financial inclusion processes.

Overall, the study identified a complex set of factors that need to come together in order to improve financial inclusion and enable financial inclusion initiatives to achieve their full potential in helping individuals to participate in the financial system. While the provision of financial education might help to increase the awareness of available financial products and services, this does not inevitably lead to access and use of these services: people also need to feel the need for financial products and to be able to make use of them. A savings account is of little use when people find that their circumstances (e.g. low income, debt) do not allow them to save or money is too tight to afford insurance. Similarly, having a bank account has little meaning in terms of full financial inclusion when individuals find it difficult to use some of its facilities such as direct debit. This illustrates that financial inclusion processes take place at different levels: at the individual level through promoting access to and use of financial products and at the structural level through changing individuals' circumstances, which foster financial inclusion. In this context, increasing benefits income, better budgeting, helping people to gain employment or to attend further education were essential for bringing financial inclusion forward. Moreover, direct and indirect links between the services the agencies provided and financial inclusion were observed. In particular money advice and related services offered the basis on which changes in financial inclusion could build.

Some of the links described here had only come into effect by the time of the follow-up interview because some people needed more time to consider changes, such as becoming a credit union member, needed more information, or changes came into effect only after they had experienced an improvement in circumstances (i.e. taking up employment). This shows that financial inclusion is a dynamic concept, with some changes only observable in the longer term. In addition, the longer-term approach of the study enabled the researcher to reveal persistent barriers to improving financial inclusion and cases where the experience of financial exclusion had not changed significantly despite the intervention of an agency. They included institutional barriers

which persistently created difficulties in opening bank accounts and individual barriers, such as residual feelings of mistrust of banks among some people in the sample.

8.5 The Wider Impacts of Improved Financial Inclusion and its Links to Social Inclusion

This research is consistent with evidence in the literature that even small fluctuations in income and expenditure, such as an unexpected bill coming in, or the need to replace broken household items, could lead to strains in the budget of low-income households. Not only are risks unequally divided between poor and more affluent individuals, but so also are their possibilities and abilities to deal with risk and its consequences (Beck, 1992). The availability of protective services, such as savings, insurance and credit, thus made a real difference to the lives of many people in the sense that they promoted autonomy and enabled respondents to be better prepared for coping with the challenges life on a low income can imply. For example, taking out home contents insurance had a positive impact on feelings of peace of mind for some of those who reported problems of anti-social behaviour and crime in their neighbourhoods since they were able to replace stolen or damaged property with the financial help of the insurance and without borrowing money. In contrast, many respondents felt that they did not need more advanced banking facilities, such as direct debit, in order to manage finances. Instead, many preferred the very basic facilities offered by POCA's or used bank accounts only in a rudimentary manner. Consequently, the availability of more advanced banking facilities and increased financial knowledge in relation to using banking services often had no immediate impact on respondents' lives.

Overall, these findings suggest that improved financial inclusion is part of the processes that lead to (more) social inclusion. However, it is too simplistic to assume that improved financial inclusion (alone) is an instrument for poverty eradication. Financial services, to some extent, helped respondents to cope better with living in poverty, and hence improved poor people's quality of life, but financial inclusion did not change the conditions under which they lived. This finding has important implications for policy.

8.6 Implications for Theory

8.6.1 *Self-identity, Agency and Change*

In everyday life, people's behaviour often relies on routines (Schütz and Luckmann, 1989). In the sample, the use of sub-prime lenders represented such a routine, which, for some respondents, was firmly embedded within their social networks of relatives and friends. For these respondents, making use of catalogues, doorstep lenders and other sub-prime sources of credit constituted a meaningful adaptation to their existing circumstances: the easy access to small sums of money, informal and quick application procedures and the acceptance of these sources among relatives and friends. According to Schütz, it is not irrational to rely on routines. These represent 'satisfactory and relatively cheap solutions of typical problems in daily life' (cited in Esser, 1993: 17). From Schütz and Luckmann's viewpoint, then, respondents acted in a rational way; though this might not appear as such from the outside since the costs of using sub-prime lenders is significantly higher than the apparent reward of using these sources. Individuals, therefore, act upon a *constrained* rationality rather than according to pure economic motives, in which way rational choice is generally understood (see for example, Elster, 1986).

According to Schütz and Luckmann (1973), new information may have little effect in view of firmly established habits and proven routines. Although it was confirmed by this study that some knowledge transmitted by the agencies had little relevance for individuals' life situation and did not change behaviour in respect of using financial products, it is one of the important findings of this research that individuals can succeed in overcoming predefined assumptions, which shape their behaviour and self-perception. Challenging Schütz's and Luckmann's assumption that individuals 'have no occasion to want to look behind the appearance of completely routine acts' in everyday life (Schütz and Luckmann, 1989: 28), the presentation of new information and alternatives can represent an opportunity to call into question habitual behaviour and the reliability of existing assumptions. One remarkable example in the sample was the establishment of a savings group by participants in the financial inclusion programme of the Glasgow Advice Bureau. Where this group of respondents previously perceived little opportunity or ability to save (formally), this was achieved through the encouragement of the agency and the determination of the course participants. Also the

provision of information about credit unions, and alternative ways of managing money and using credit had profound impacts on many individuals' behaviour. While this brought people closer to alternative providers of financial services, particularly credit unions, distance from mainstream financial institutions often remained: an indication of the persistence of some barriers to financial inclusion as discussed above.

These findings challenge Bourdieu's (1977, 1984) notion of 'habitus': durable cultural practices and preferences ('dispositions') which are acquired by individuals during the early years of their life and which are closely linked to individuals' educational level and social origin. This research is consistent with critiques which emphasise that Bourdieu's approach is overly deterministic, without meaningful accounts of the possibility of individual change and an acknowledgement of the role of rationality in explaining human behaviour. As Jenkins (1992) observes, Bourdieu depicts the social world as one 'in which things happen to people', rather than a world in which individuals are the agents of individual and collective change (Jenkins, 1992: 91). Bourdieu does not explain why people act the way they do and, in fact, why change occurs. Similarly, this research challenges theories about the underclass, which is caught in a cycle of deprivation and disadvantage and Lewis' (1966) notion of an inter-generational transmitted culture of poverty. Although respondents followed determined procedures in everyday life, these can be largely understood as a reaction to the (feasible) opportunities that are within reach of individuals. Consequently, through a widening of alternatives or a change of people's situation, individuals' behaviour can be changed as well. Moreover, people were active agents in changing their circumstances and change did not only occur as a consequence of external events, as proposed by Bourdieu (1977): there was also evidence for individual change under constant circumstances. This finding is consistent with Giddens' (1991) construction of agency under conditions of late modernity. He stresses that individuals are active agents in shaping their own trajectories (Giddens, 1991). The notion of individual choice and action is also central to contemporary theories of individualisation. According to Beck and Beck-Gernsheim (2002), the individualisation of society demands of individuals that they build their own 'do-it-yourself biography'. Constructing such biographies is inevitably flexible in order to fulfil the conditions of modernity (e.g. adjustment of biographies to the demands of the labour market) (Beck and Beck-Gernsheim, 2002).

Therefore, individuals have no choice but to be active agents over the course of their life time.

Rational choice: The concept of agency and choice also explains lack of change in the sample. As discussed above, individuals make rational choices about lifestyle decisions (in Giddens' sense of 'routinised practices' (Giddens, 1991)). This implies the weighing of alternatives according to their assumed effectiveness and the likelihood of positive outcomes (Esser, 1993). Therefore, if possible outcomes are perceived to be negative, individuals are likely not to pursue this course of action. In the context of financial inclusion, this meant that some respondents did not want or did not use financial products or facilities when the outcomes were perceived to be possibly disadvantageous. This behaviour was clearly shown in the area of banking in relation to the use of direct debit. Instead, people started using financial services when they thought that these would be positive, for example, for money management. Consequently, the reason why changes were observed in some areas of financial exclusion but not in others can be partly explained by the fact that individuals make rational choices about the use of financial services. While the electronic payments of bills was largely perceived by respondents not to offer advantages when not in paid employment and living on a low income, using alternative (affordable) credit options had real benefits over continuing use of more expensive sources of credit; hence representing a choice based on economics-based rational, which is consistent with rational-choice theory. This was supported by respondents' view that credit unions were often offering a more friendly and personal service than banks. The notion of individuals as rational actors partly explains why credit unions were accepted by many respondents as an alternative to more expensive credit. The findings of the study have therefore implications for the potential value of rational choice theory and other concepts which depict poor people as rational actors rather than victims of poverty (see for example, Jordan, 1996; Sen, 1999), since the research confirms that individuals' often make rational choices with regards to financial services. One important condition for rationality of behaviour, according to Schütz and Luckmann (1989), is knowledge about actions. This means that a rational choice is, in part, an *informed* choice. Financial education, in this context, helps individuals to acquire the 'full scope of knowledge that is necessary for action in (...) everyday reality' (Schütz and Luckmann, 1989: 60); here: choosing financial services that best suit their needs and circumstances. It widens the

choice sets available to individuals, to the extent that several feasible acts are possible. Knowledge is, of course, not the only criterion in the context of improving financial inclusion, the facilitation of feasible alternatives and the improvement of conditions under which individuals act are all important too. This last point is discussed below.

Structural constraints: Although individual agency is important, choices are always also constrained by structure. Lifestyle implies choice within a plurality of options, as Giddens (1991) notes. However, for people living on low incomes, lifestyle choices, and therefore the possibility of creating self-identity, are restricted through circumstances (*ibid.*). This is supported by other authors, such as Lister (2004), who stress the significance of individuals' social position in explaining human behaviour. Therefore, an analytical framework which locates individual agency in the context of structural processes offers the opportunity of concentrating on agency and, equally, on processes and factors that constrain agency, such as a lack of material resources or power (Lister, 2004); thereby rejecting the 'structure-agency dichotomy' and, instead, emphasising the relationship between these two theoretical assumptions. This also applies to the context of financial exclusion in which actions by individual agents are of similar importance to exclusionary processes of financial institutions (e.g. geographic exclusion) and the influence of broader structural processes (e.g. lack of jobs in areas of deprivation, low pay, lack of childcare provision). Banking inclusion, for example, was influenced by respondents' personal circumstances and their preferences, but also by institutional barriers, such as the difficulty of opening bank accounts because of financial institutions' ID requirements. In addition, the findings of the study illustrate that improved financial inclusion generally influenced a range of factors which intervened in the financial-social-inclusion relationship rather than being a direct determinant of improved social inclusion. The benefit of having formal savings products, for example, was frequently associated with respondents' ability to put some money aside rather than having *formal* savings and using a savings account *per se*.

8.6.2 Empowerment and Control

'Feeling powerless' is an expression frequently used by people in poverty, which, in turn, can lead to low self-esteem and social isolation (Burnett and McKendrick, 2007). In this context, lack of money also means that individuals are deprived of 'the chance to exercise power and influence' (Ward, 1986: 33). In the research, this was expressed in

various places: in respondents' dealings with creditors, financial institutions and the state (i.e. when claiming social security benefits), and how they generally viewed their stance in society (e.g. getting a job, obtaining mainstream credit). Before coming into contact with an agency, respondents often believed that they had no choice in many decisions affecting their lives. This perception could be fuelled, and hence processes of financial exclusion reinforced, by the practices of respondents' social networks, such as the use of sub-prime credit or informal methods of saving. In the broader context of social exclusion this is, for example, described by MacDonald et al. (2005). They suggest that a significant barrier preventing young disadvantaged people entering the labour market is 'locally-embedded, social networks' if they are themselves isolated from the labour market (MacDonald et al., 2005: 873). Therefore, while networks can be a source of cultural resources and informal support and friendship, they are not always helpful in the way that they limit individuals' opportunities. In contrast, this study shows that social networks could also play a role in the transmission of knowledge of alternative financial providers, such as credit unions. In turn, the positive experience of respondents with the agencies and increased knowledge about financial services may help to change attitudes and behaviour of relatives and friends as well in the longer term.

Transition points or 'fateful moments' - 'crossroads' in individual's lives (Giddens, 1991) - constitute an opportunity for individuals to move forward and take a new stance in life. The experience of over-indebtedness (or, more precisely, certain events in the experience of over-indebtedness such as the receipt of final demand letters), appears to have represented such a fateful moment. For respondents, it offered the opportunity, either to resort to familiar modes of behaviour or to follow new paths, hence giving the possibility of change and self-empowerment. The study shows that the agencies played a significant part in guiding respondents in their endeavour of self-empowerment. Most importantly, they generated a platform, allowing respondents to pursue change through, for example, the process of debt counselling and accessing more appropriate financial services. Trust in respondents' ability to change their situation was another decisive factor which encouraged individuals along their way. Feelings of empowerment, then, were often associated with the mastery of financial products and finances more generally.

Feelings of happiness, autonomy and competence are important aspects of psychological health and well-being (Newton, 2007) and processes of social inclusion more generally (Rogaly et al., 1999; Room, 1995). In turn, feelings of lacking control over one's life and being stigmatised, amongst other factors, are important determinants of poor health (Wilkinson, 2005). Research on 'economic abuse', which involves the control of finances and bank accounts, for example, highlights the negative consequences of this type of domestic violence on victims' economic, physical and psychological health because of the loss of autonomy and independence (Adams et al., 2008; Fawole, 2008). The experience of financial exclusion can have similar psychological effects: individuals can feel that they cannot use financial services effectively and experience problems with managing finances more generally. As a consequence, people can feel that their life, to some extent, has become uncontrollable too. In the sample, debt problems, for example, which had often been accumulated through (unaffordable) bank charges or the over-commitment of credit, were a considerable source of psychological stress, not only because of the material impacts of being over-indebted but also because of feelings of shame associated with debt problems. Feelings of interviewees that they could not always freely choose financial services or that certain financial products were a source of stigmatisation, such as the availability of only *basic* bank accounts, also contributed to feelings of powerlessness amongst respondents. In addition, lack of financial knowledge could be accompanied by a feeling of insecurity and lack of control. It follows that this research has implications for theories about the importance of psychological factors in explaining poor health (Wilkinson, 1996, 2005), suggesting that financial exclusion - as a symbol for 'low social status' - can be one of the aspects influencing health. For some, it can be part of a process of 'Othering', as described by Lister (2004) in the context of poverty, contributing more generally to individuals' feeling of lack of social integration.

The findings have also implications for theories about poverty. They confirm that poverty should not be perceived in absolute measures as this is (often) of little relevance for residents of developed nations, but needs to be seen in relative terms. Similarly, simplistic definitions of financial inclusion, which view inclusion narrowly in terms of improving access, are clearly rejected on the basis of this study and existing evidence in the literature. Instead, different degrees of engagement with financial services exist for individuals.

Financial exclusion is one of the aspects that constitute social disadvantage. Being excluded from mainstream society is not only about lack of material resources, as Wilkinson (2005) rightly suggests, but also about the stigmatisation associated with, for example, labour market exclusion. The positive feelings which could be associated with accessing and mastering financial services – often closely related to managing finances more generally – increased financial knowledge and awareness of possibilities/rights confirm the influence of improving financial inclusion on individuals' health and well-being.

8.7 Implications for Policy

8.7.1 Tackling the Underlying Causes of Financial Exclusion

Rather than tackling the underlying structural causes of exclusion, policy makers largely focus on individual responsibility in relation to promoting financial inclusion. This one-sided approach to tackling financial exclusion is, for example, evident in the government's approach of promoting savings inclusion, which emphasises the need for encouraging low-income households to save.

The promotion of 'individual - or biographical - solutions for systematic problems' (Heaphy, 2007: 87) is a key characteristic of the individualised society. This shapes individuals' relationship with the welfare system as well as with respect to financial services, where individual responsibility (with the provision of the right 'tools') is central to the government's financial inclusion strategy. Sociological theories about the relationship between agency and structure in explaining social phenomena were discussed above. Locating individual agents in the context of structural processes has two important implications for financial inclusion policies. On the one hand, this approach suggests that individuals themselves make decisions about the use of financial products and services, hence the provision of financial education and appropriate financial products are pivotal in promoting financial inclusion. On the other hand, financial exclusion is influenced by individuals' social position. Therefore, financial inclusion measures need to go hand-in-hand with policies that address the wider context of financial exclusion, particularly low income and unemployment. Such an approach needs to ask what can be done to prevent financial exclusion in the first place, for

instance, to understand how the use of credit is related to poverty. In addition, individuals' preferences need to be taken into account when formulating financial inclusion policies in order to ensure that these are well-received by recipients and appropriate to their personal circumstances.

There are many suggestions in the financial inclusion literature as to how financial inclusion initiatives could be improved in practice. There is not the space, and it is not the task of this research, to review all of those suggestions in detail. However, in general it can be said that these proposals are largely concerned with improving product design (particularly bank accounts and the POCA) and the delivery of financial products (e.g. regulations, awareness-building), with some emphasis on improving consumer education. However, these measures can only partly provide a solution to financial exclusion if the underlying causes are not tackled. In the financial inclusion literature, one-sided approaches to tackling financial exclusion are increasingly criticised (see for example, Devlin, 2005; Fisher, 1999; Gillespie, 2007). Given the complexity of the phenomenon and its deep-rootedness in complex processes of social and economic change, it is too simplistic to assume that promoting financial inclusion alone can make a significant difference to deprivation. This was clearly shown with respect to the overstated relationship of the government between banking inclusion and employment. According to Gillespie (2007):

financial inclusion measures do not substitute for addressing income poverty (...)
(Gillespie, 2007: 104).

This comment raises an aspect of financial exclusion which is often under-emphasised in the literature as an important factor underlying barriers to financial inclusion: that financial exclusion is essentially about low income. Therefore, despite the importance of widening access to appropriate financial products, and tackling individual barriers, promoting financial inclusion is fundamentally about improving the circumstances of financially excluded people. This should involve a broader understanding of the concept than is currently the case, and what needs to be achieved in terms of helping people to engage in the mainstream financial system beyond the concrete measures mentioned in the literature (e.g. product design). In contrast, financial exclusion can also affect more affluent people (for example through over-commitment and over-indebtedness), which

challenges the notion that exclusion from financial services is inevitably linked to low income. Overall, financial inclusion initiatives need to be firmly embedded within policies that aim at improving social inclusion more broadly rather than isolated initiatives, which, in turn, suggests a multidimensional and joined-up approach between different agencies (those that promote financial and wider social inclusion), the state as well as financial institutions. Another point concerns the inconsistency of government policies which involve the promotion of financial inclusion on the one hand and yet contradict this aim on the other. One example is the centrality of the post office network for promoting financial inclusion and continuing post office closures.

8.7.2 *The Role of Banks*

It became clear during the interviews that some respondents felt that they were treated with less respect by banks than more affluent customers. Although this fact is hard to establish, since interviews with more affluent customers and banks did not take place, the perceived contemptuous behaviour of banks towards serving some respondents was important insofar as it fed back to consumers' own perceptions, and, in turn, fuelled mistrust of banks and processes of financial exclusion. Given the views of socially disadvantaged consumers and the importance of the perceived attitude of banks in influencing financial inclusion, mainstream financial institutions should, therefore, reconsider their attitude in promoting financial services to this social group. In contrast, the experience with the agencies illustrates that it was particularly the building up of trust and a sense of sympathy that supported changes in respondents' lives. Credit unions, with their mutual community-based and personal approach, were often perceived to be better equipped than banks to deal with the financial issues facing vulnerable consumers. Feelings of financial exclusion, therefore, do not only relate to financial products, as in the case of basic banking services, but also to the treatment through financial institutions. This has important implications for the design and delivery of financial products as well as for the role of banks within the financial inclusion process.

Currently, the government emphasises the role of the third sector in promoting financial inclusion. However, there is much more potential for the banking sector to serve disadvantaged consumers better; not only in terms of making mainstream financial products available, but promoting *suitable* financial services. One way forward would

be the obligation of financial institutions - similar to the provisions of the Community Reinvestment Act (1977) in the USA - to demonstrate that their facilities serve the needs of the communities in which they conduct business. This suggestion is widely supported in the literature. Although views about the effectiveness of the CRA are mixed¹⁴¹, it is likely that the CRA increases attention to the specific needs of people living in these areas. In respect of banking, suggestions are made in the literature that the right to a bank account should be enshrined in the law: a right that already exists in other countries in Europe, such as France. This would reflect the importance of having access to banking services in today's society and ensure an important aspect of financial citizenship. Although enforcement is not necessarily judged to be more successful than voluntary agreements (if these are closely monitored), it nevertheless should ensure that banks fulfil their social responsibility in relation to promoting financial inclusion, even in an unpropitious economic climate.

8.7.3 Recommendations

A number of recommendations emerge from the research. Given the importance of social networks in influencing processes of financial inclusion as well as exclusion financial inclusion initiatives need to be visible in the community and be able to actively engage members of the community in order to maximise their impact. Mutual organisations such as credit unions, if they are part of the wider community (for example based in community centres and involved in community activities), are well placed to deliver such a service. The government should continue to encourage the involvement of agencies in the wider community while, at the same time, offering services tailored to the needs of individuals.

Agencies that are involved in the promotion of financial inclusion need to work in partnership with organisations that aim to bring people back into work, improve skills and confidence as well as addressing issues of mental health more generally. This is

¹⁴¹ On the one hand, evidence from the US suggests that the CRA raised the level of suitable financial products for low-income consumers and increased lending to disadvantaged communities (Lynch and Haidar, 1998). On the other hand, other views note that the CRA forced banks into sub-prime lending in order to fulfil the requirements of the regulation (DiLorenzo, 2007).

exemplified by one of the financial education agencies in the sample which worked closely with a mental health organisation. The government needs to foster the links between these different types of agencies.

The research supports the emphasis of the government to tackle demand-side barriers as part of its financial inclusion strategy. However, more consideration needs to be given to challenging the persistent barriers that prevent some people from engaging more with the financial system, such as mistrust of banks. A greater attempt is needed to bridge the gap between people who are currently experiencing financial exclusion and the mainstream financial system such as the successful approach of one of the financial education agencies to invite bank staff to their workshops.

Ultimately, the government should enhance the role banks are playing in the financial inclusion process.

8.8 Priorities for Future Research

8.8.1 The Impact of New Entrants

There are several issues in financial inclusion research that require more attention. One area is the impact of new developments in the financial services industry on people's experience of financial exclusion. Research, for example, points out the popularity of credit union current accounts¹⁴² amongst members (Jones, 2008b) or the potential, but also limitations, of mobile phone banking services in tackling financial exclusion (Thiel, Undated). For example, it is argued that mobile phone banking services are currently not targeted at unbanked and underbanked consumers and have limited overall coverage (Thiel, Undated). While these services point to ingenuity on the supply side, these new developments nevertheless do not tackle the problems of unfair costs or charges and the underlying causes of exclusion. More research is needed in order to understand the implications of these new developments for the promotion of financial inclusion. Likewise, little is known about the effects of pre-paid debit and credit cards, which are

¹⁴² These have been introduced in larger credit unions from November 2006, and were expected to be offered by 18 credit unions by the end of 2008 (ABCUL, 2008).

likely to have great potential for inclusion, partly because they give low-income consumers more control over money than conventional debit and credit cards.

The research points to the likely positive impact of online and telephone banking services for those on low incomes (e.g. keeping track of money). These services represent a relatively new method of banking which has, hitherto, received little attention in the literature. The study shows that internet and telephone banking have some potential for including low-income consumers into the financial mainstream and this should be explored in detail in future research. The future role of the post office as provider of financial services constitutes another important area, since the post office will continue to administer POCAs after the current contract with the post office ends in April 2010 and hopes to offer additional financial products (BBC News, 2008) as part of becoming 'people's postal bank' (BBC News, 2009). Consequently, the post office would become part of the financial mainstream and offer current financially excluded people the full range of financial services as commercial financial institutions. These changes and their consequences on financial inclusion need to be carefully explored by future research. Similarly, current campaigns – like the one led by the National Housing Federation - to promote equal tariffs to prepayment meter customers will reduce the rationale for the universal use of direct debits and thus mainstream banking services. While these new developments are likely to have a positive impact on providing more financial services to those people who are currently excluded from the financial mainstream and reducing the costs of using prepayment meters, it is doubtful whether these changes will promote more engagement with banks. In contrast, current developments relating to the unfairness of bank charges may positively influence the future use of direct debits, since these charges were identified by many people to be an impediment for the use automated banking.

8.8.2 The Impact of the Financial Crisis

Another priority for future research is the exploration of the consequences of the financial crisis ('credit crunch') in late 2007 and 2008 and the following economic downturn on financial inclusion. The impact of the 'credit crunch' on financial inclusion is increasingly described in the literature (Mitton, 2008; Perchard, 2008; Thiel, Undated). There, it is noted that the current economic crisis – as in the late 1980s/early 1990s when banks looked for 'safer markets' – is likely to make it more difficult for

people who had been previously included in the financial mainstream to access mainstream financial services in the future, with credit becoming more costly for some. This can entail a greater reliance on sub-prime sources of credit on the one hand (Hunt, 2008) and a greater reluctance amongst financial institutions to develop and offer products that suit the needs of lower income consumers on the other. Therefore, the consequences of the credit crunch on consumers in respect of financial inclusion need to be carefully observed. For the government, the crisis does not only bring challenges, but also new opportunities in terms of tackling some aspects of financial exclusion, for instance through the (part) nationalisation of financial institutions, which took place as a consequence of the credit crisis. This might allow the state, which is increasingly withdrawing from providing financial support to citizens, to play a greater role as provider of financial services.

8.8.3 Deepening Financial Inclusion Research

Because of its exploratory nature, this study covered a wide range of topics. While this approach meant that a wide range of relevant aspects of individuals' lives were covered in the research, there was less room for in-depth discussions of certain areas in some places because of time constraints during the interview. For example, the area of insurance needs further exploration. While issues of access to home contents insurance were covered in the research, there are other types of insurance that need to be given more emphasis in future research, such as life assurance. This and other types of insurance play an increasingly central part in the provision of private welfare in the future, as was discussed in Chapter 2. In addition, issues concerning the take-up and impact of insurance-with-rent schemes, which were only partly discussed in this research, need to be given more attention; more so as the government is giving more attention to this aspect of exclusion than was the case in previous financial exclusion policies.

Another aspect of financial exclusion which, so far, has been given little consideration in policy and financial ex-/inclusion literature, and was not covered by this study, is private pension provision. This needs to be a stronger focus of future research,

particularly because of its likely significance for the welfare of individuals in older age.¹⁴³

The research focussed on the experiences of individuals rather than exclusion at the collective level. Given the effect of financial exclusion processes on disadvantaged neighbourhoods and discussions about the potential of community finance initiatives to promote community regeneration (Affleck and Mellor, 2006; Mayo et al., 1998), it is essential that this point is explored further. This also applies to rural communities where lack of access to local bank branches can contribute to processes of financial exclusion. Although the research included agencies which served rural areas, probably more could have been done to capture the experience of people living in remote rural communities.

Although the study concentrated on the experience of disadvantaged people, there was some evidence on the dynamics of financial exclusion, which could affect more affluent people as well (largely through the experience of over-indebtedness and/or unemployment following recession). This needs to be a stronger focus of future research on financial inclusion, particularly in the current economic downturn which means that more people will find it difficult to access mainstream financial services. Similarly, the experience of individuals from minority ethnic communities and with learning difficulties would have merited more exploration. Both groups were included in the research, but only to a limited extent. Ultimately, exploring the views of banks was not the main focus of this research. However, their views might have offered valuable insights into the situation of financially excluded people, which is mainly explored from the perspective of the financially excluded and the agencies that supported them.

The research shows that change sometimes took place over a longer period of time. Although the study incorporated a longitudinal element, social change might take longer to evolve fully, and people's experiences possibly change (again) over an even longer period of time (particularly in relation to credit use). Therefore, the conduct of further longitudinal studies is expected to be helpful to determine the long-term outcomes of

¹⁴³ One interesting development in this respect is the launch of personal accounts for pensions in 2012 (DWP, 2006).

improved financial inclusion and other changes experienced through participating in financial inclusion initiatives.

8.8.4 Measuring the Qualitative Impacts of Improved Financial Inclusion

There is still a dearth of literature that measures the *qualitative* impacts of improved financial inclusion on those who are the recipients of financial inclusion initiatives. This means that improved financial inclusion is still often operationalised in the narrow sense of increased access to specific products rather than in terms of whether a wide range of financial services is available which fulfil the financial needs of individuals in today's society in an appropriate way and whether people are able to use these effectively. The availability of appropriate (in terms of their conditions and costs) financial products, financial literacy and capability in terms of accessing and using financial products are all key indicators of financial inclusion. Although these criteria do not necessarily imply that financial products are, in fact, used, individuals nevertheless are given the opportunity to become financially included if they want to.

Without taking into account both access *and* use of financial products, it would be fallacious to assume that financial inclusion initiatives have been successful when access to financial products has merely been widened. This might have no further impact on individuals since they do not use services made available to them. This critique, to some extent, also applies to the conceptualisation of social inclusion. It is not only the degree to which individuals are ex- or included in terms of financial services and other social activities that matters, it is also the *quality* of engagement. In relation to labour market exclusion, for example, it is not only important that people are in work, the quality of this engagement is significant to social inclusion too (e.g. pay, social relations at work). Without the measurement of these qualitative impacts it is difficult to apprehend what increased engagement in society truly means for individuals, hence whether full inclusion has in fact taken place. The findings of this study, however, do also suggest that gaining access to a financial product had meaning in itself, for instance having an 'ordinary' current account rather than a *basic* banking product only. Looking at the phenomenon in an in-depth way is essential in order to capture all these nuances.

This study made a first attempt to systematically measure the impact of improved financial inclusion, disentangling the processes which lead to inclusion and its

consequences. Future research should explore these links further, considering issues of appropriate access as well as use of financial services to a wide-ranging consumer-base, and should take into account the important role of individuals' preferences. In particular, future research about financial exclusion should take into account the effects of the credit crunch on less income-constrained groups. No direct link was identified between financial inclusion and employment. However, only very few people in the sample had moved into employment during the course of the research, which makes it difficult to determine the effect of having a bank account on their prospects of gaining and sustaining employment. This is an area that requires more research, more so as the causality between the two phenomena has not been explored systematically in the literature as yet. The specific issues of individuals with a disability and poor health is another area which needs more exploration since the study shows links between the two and financial ex-/inclusion and, to date, these issues have only been sparsely covered in the literature. Lastly, the study suggests the significance of having home contents insurance for some of those living in deprived, high-crime neighbourhoods. These links between financial inclusion and crime need further exploration.

Overall, this study shows that financial inclusion has the potential to improve people's lives and the government has a range of measures to the fore in order to better disadvantaged people's experience of financial exclusion. However, more needs to be done to promote meaningful use of financial products and change the life situation of those who are affected by financial exclusion.

Appendices

Appendix A - Overview of Sub-prime Credit Sources

<p><i>Home credit companies or doorstep lenders</i> - such as Provident, Greenwoods and Shopacheck, offer small-value short-term unsecured loans that are usually repaid weekly in cash (also shopping vouchers). Traditionally, repayments are collected from customers' homes by a network of agents. Typically APRs range from 100 to 400% depending on the lender and the size and term of the loan.</p>
<p><i>Pawnbrokers</i> - also offer small cash loans, which are secured on property, usually jewellery. Typical APRs range from 70 to 200% based on a loan £100 over six months.</p>
<p><i>Sale and buyback shops</i> – such as Cash Convertors and Cash Generator, buy second-hand goods and give the customer the option of buying back the goods at a higher price within an agreed period of time.</p>
<p><i>Payday loans</i> - offered by a growing number of cheque cashers, pawnbrokers and home credit companies. The customer writes one or more personal cheques to the lender and receives the amount of the cheque, less a fee. The lender then waits for up to 30 days before presenting the cheque(s). Fees can range from £6 to £14 for a £100 cheque held for 30 days, and between £2 and £7.50 for a £50 cheque retained for 14 days (Dominy and Kempson, 2003b).</p>
<p><i>Mail-order catalogues</i> - often provide goods through a network of agents working on commission who either buy for themselves or for a number of customers. Goods brought in this way and repaid over 20 or 40 weeks are, technically interest free. If repayments are spread over more than 40 weeks, interest is charged at 28.8% or more (Jones, 2001). The mark-up on goods is high.</p>
<p><i>Rental purchase or hire purchase (HP) outlets</i> - such as BrightHouse, allow customers to spread the cost of furniture, white goods and other household items by paying regular instalments to the shop. Although the advertised APR is usually 29.9%, there is evidence that customers are strongly encouraged to take out 'optional' insurances and service cover, which significantly increase the costs of borrowing (Jones, 2001). Like mail order, the mark-up on goods is high.</p>
<p><i>Store cards</i>¹⁴⁴ - similar to credit cards, except that store cards can only be used in a specific</p>

¹⁴⁴ Store cards are generally perceived to be 'mainstream' as they are widely available to all sections in the population. However, in the context of this research this source is treated as a source of sub-prime credit as it is

store or store group. Interest rates are comparable higher than conventional credit cards with 20 of the 31 major store cards on the market charging over 25% interest (Moneysavingexpert, 2008).
<i>Sub-prime credit cards</i> – Mainly aimed at people with impaired credit ratings, but also people on low incomes. Has the same function as high-street credit cards, but higher APR, ranging from 20% to 60% and lower credit limit (Collard and Kempson, 2005). Penalties and charges are triggered by the borrower’s use of the credit facility and repayment record (‘behavioural pricing’) and contribute significantly to the cost of this source of credit (Whyley and Brooker, 2004).
<i>Illegal moneylenders (‘loan sharks’)</i> - like home credit companies, but operate without a license from the OFT and are not regulated under the Consumer Credit Act (Ford and Rowlingson, 1996). They are significantly more expensive than sub-prime credit, with the costs being approximately three times higher than credit from even the highest-charging legal lenders (Ellison et al., 2006).

Source: (Collard, 2007: 17, if not otherwise stated).

understood that these cards are offered to less favourable terms and conditions than comparable types of high-street credit.

Appendix B - Interview Schedule Agency Interviews

This is the interview schedule for financial education and advice agencies. A separate, slightly varied, schedule was used for interviewing providers of financial services.

Informed consent was obtained prior to each interview.

What is your understanding of ‘financial exclusion’?

Which social groups are more likely to be affected by financial exclusion? Why?

What are the specific problems this/these group(s) experience in relation to accessing and using mainstream financial services?

- Are there particular circumstances that make them more vulnerable?

Which areas are more likely to be affected by financial exclusion? Why?

What are the specific problems this/these area(s) experience in relation to financial exclusion?

- What about the area your agency/project is serving?

What services are your agency/project offering in response to financial exclusion?

How are these services delivered?

How do people come in contact with your agency/project?

Do you deliver financial inclusion services to specific groups of people? Which ones?

- Is this done through working together with other organisations? Which ones?

In your experience, what impacts do your services have on the lives of financially excluded people in terms of improving financial inclusion?

What about the wider impacts of your service on people’s lives?

What about the impact of your service on the area you serve?

Do you have any ways to measure impact? Which ones?

Promoting financial inclusion is a big issue in the UK. Do you think the policies of the UK government have a noticeable impact on improving financial inclusion? Why not?

- What about the policies of the Scottish Executive?

In your opinion, how could financial inclusion be better promoted to disadvantaged people?

- What could your agency/project do?
- What about financial inclusion policies?

Is there anything else you would like to cover?

The last part of the interview confirmed basic data about the agency/project.

Appendix C - Interview Schedule for Service Users

This interview schedule was used - except for some slight variations - for all service users. The interview schedule for the follow-up interviews follows closely this schedule for the first interviews with service users, and is, therefore, not reproduced here.

Informed consent was obtained prior to each interview.

PRIOR TO CONTACT WITH THE AGENCY

In your own words, can you tell me the story behind coming into contact with the agency/project?

Identify key topics and check the following list as you complete each part of the discussion.

ACCESS AND USE OF FINANCIAL SERVICES		PERSONAL CIRCUMSTANCES	
MONEY MANAGEMENT/DEBT			

Probe for further information

What were your experiences with finding financial services? Prompt for: bank accounts (which type of account?), savings (informal/formal?), home contents insurance, credit/loans and how they came (not) to have these financial services.

What were your experiences with using financial services?

What were your experiences with dealing with banks? What about other financial institutions?

Would you have liked more financial services? Which ones? Why?

What were your experiences with managing money?

Did you experience any problems with managing money?

- What would have made money management easier?

What were your experiences with borrowing money/using credit?

- What about debt problems?

Can you tell me a bit more about your personal circumstances at the time?

- What about changes in your circumstances?

SERVICE USE

Can you tell me approximately when you first came into contact with the agency/project?

How did you come in contact with the agency/project? What was the trigger for coming into contact (if longer term difficulties)?

How many times did you come to the agency/project?

How often did you see an advisor?

Can you tell me a little bit more about the things you talked about at the agency/project?

See how much people can remember and prompt for specific information.

IMPACT OF FINANCIAL INCLUSION INITIATIVES

Thinking of your situation now, taking everything into account, how has using the agency/project changed things for you?

Identify key topics and check the following list as you complete each part of the discussion.

ACCESS AND USE OF FINANCIAL SERVICES		PERSONAL CIRCUMSTANCES	
MONEY MANAGEMETN/DEBT			

Probe for further information

What are your experiences with finding financial services now?

What are your experiences with using financial services now?

What are your experiences with banks now? What about other financial institutions?

Would you like more financial services? What services? Why?

How do you find managing your money now?

- What would make money management easier?

What are your experiences with borrowing/using credit now?

- What about debt problems?

Can you please describe your personal circumstances now. How have things changed for you?

- How have these changes impacted or impact on your life?

Has using the agency/project changed things for you in any other way?

When you think about the services used, what felt most useful? Why?

Was there anything which did not feel helpful? Why?

Would you have wisied other services? Which ones? Why?

Have you used the agency/project again? When? Why?

Have you used another agency? When? What is the story behind coming into contact with another organisation?

In the last part of the interview, basic data about interviewees were recorded. For this purpose, a separate form was used.

Appendix D - Coding Scheme

Main code	Sub-codes	Further sub-codes
Financial exclusion	Banking	Bank account Post office account Access to banking
	Savings Credit Insurance Financial service providers Financial literacy Change	Banks Building society Post office Credit union Doorstep lenders Banking Savings Insurance Financial literacy Confidence Attitude
	No change/future plans	
Main code	Sub-codes	Further sub-codes
Credit use/over-indebtedness	General No debt High-street market Sub-prime market/illegal lenders Credit union Social Fund Family or friends Arrears domestic bills Attitude towards using credit Dealing with debt problems Change	
	No change/future plans	Credit use Debt problems Attitudes Confidence

Main code	Sub-codes	Further sub-codes
Money management	General Bill payment Making ends meet Control finances Plan ahead Choose financial products Change No change/future plans	Control finances Plan ahead Choose products Making ends meet Bill payment Attitude Confidence
Main code	Sub-codes	Further sub-codes
Personal circumstances	General Employability Health/well-being Social networks Housing Financial situation Change No change/future plans	Employability Health/well-being Financial situation Social networks Housing Lifestyle
Main code	Sub-codes	Further sub-codes
Support	General Establishing contact Nature of contact Emotional support Atmosphere Awareness of support Debt advice/action Benefit advice/income maximisation Budgeting advice Advice on financial products Other support agencies	

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